Doing everything they can or everything that pays: the impact of financial incentives on two non-profit organisations

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Declaration

I, Stefanie Tan, confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

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Abstract

This thesis explores the impact of financial incentives on non-profit organisations delivering outcomes-based contracts in UK public services to understand how they affect intra-organisational behaviour and the motivation of staff members. These issues are examined in comparative case studies of two non-profit organisations delivering public services through a Social Impact Bond (SIB), an outcomes-based payment for results (PbR) contract. In a SIB, government purchasers collaborate with private investors or social investors (seeking a blend of financial return and social value) to fund interventions tackling social problems. The SIBs generated direct financial incentives to the organisation and indirect financial incentives for managers and front line staff.

This thesis examines the impact of these incentives on organisational, team, and staff behaviour at the managerial and front-line level. This analysis draws on economic theory about the agency relationship, incentives, and non-profit organisations to understand the impact of these direct and indirect incentives on the behaviour of providers delivering outcomes-based contracts. The research examines the applicability of theories of intrinsic motivation crowding from the economics and social psychology literature to understand the impact of indirect financial incentives on the staff's intrinsic motivation.

The analysis of the SIB contracts identified the potential for unintended consequences and suboptimal allocations of resources. The strategic importance senior leadership placed on direct financial incentives influenced how team managers organised staff structure and service delivery. Front line staff understood and prioritised the preferences of their team managers in their choices to apply a client- or outcomes-centred approach to the client group. Incentives 'crowded in' intrinsic motivation for staff that supported the outcomes targets and had autonomy over their work. This study argues that the highly-geared incentives in these outcomes-based contracts had complex effects on public services delivery.

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List of abbreviations

A&E	Accident and Emergency services
AQ	Advancing Quality scheme
CHAIN	Combined Homelessness and Information Network
DCLG	Department for Communities and Local Government
DCMS	Department for Digital, Culture, Media and Sport
DHSC	Department of Health and Social Care
DWP	Department for Work and Pensions
EEA	European Economic Area
GLA	Greater London Authority
GP	General Practitioner
HES	Hospital Episode Statistics
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
HMP	Her Majesty's Prison
HSCIC	Health and Social Care Information Centre
JSA	Jobseeker's Allowance
LCF	Life Chances Fund
LMIC	Low to Middle Income Country
LSHTM	London School of Hygiene and Tropical Medicine
NHS	National Health Service (UK)
NPM	New Public Management
NVQ	National Vocational Qualification
OECD	Organisation for Economic Co-operation and Development
P4P	Pay for Performance
PbR	Payment by Results
PIRU	Policy Innovation Research Unit
QOF	Quality and Outcomes Framework
SEIF	Social Enterprise Investment Fund
SIB	Social Impact Bond
SPV	Special Purpose Vehicle
UK	United Kingdom of Great Britain and Northern Ireland
US	United States of America
UKBA	UK Border Agency

1. Introduction

This thesis explores the impact of financial incentives on non-profit organisations delivering outcomes-based contracts for public services, and how they affect intra-organisational behaviour and the motivation of staff members. This will be examined through comparative case studies of two non-profit providers delivering Social Impact Bonds (SIBs), a relatively new type of outcomes-based pay for performance (p4p) contract. In a SIB, government purchasers partner with private, for-profit, or social investors (who seek a blend of financial return and social good) to fund interventions by non-profit, voluntary, or private sector providers tackling social problems, and are repaid if predetermined outcomes metrics are met. In the two non-profit case studies, the SIB contracts introduced direct financial incentives for each non-profit organisation, and indirect financial incentives for the managers and front line staff involved in service delivery. This thesis examines the impact of these direct and indirect financial incentives on organisational, team, and staff behaviour at the managerial and front-line level.

This introductory chapter describes the policy background for the introduction of SIBs, a variant of p4p, for public services delivery in the United Kingdom (UK). The relevant theoretical and empirical literature on incentives and non-profit organisations is discussed to identify the limitations of the existing literature. Next, the context for the comparative SIB case studies is described. This chapter then presents the research questions for this thesis and the aims and objectives of this study, followed by a description of the contents of each chapter in this thesis.

1.1. Policy context

1.1.1. Shifting provision of public goods and services

In the post-Second World War period, Western European countries embarked on a mass top-down reconstruction effort to address societal issues through increased investments in social welfare (Beveridge, 1942) leading to substantial gains in educational attainment and more equitable distributions of income. By the 1980s, there were concerns about the inability of mature welfare states to continue to reduce socioeconomic and other inequalities, as well as concerns about the efficiency of delivery of key public services. To counter this, policy makers turned to the public choice school of economics and political science to argue for less government action or top down interventions to counteract 'government failure' and a new approach to the welfare state. This trend was manifested in the shift to targeted welfare interventions aimed at specific sub-groups, and often, the problematization of embedded social groups and their problems (Le Grand, 1997).

There has been a shift in the direction of public policy and service planning in Western democracies in recent decades towards a more market-driven approach to the provision of public services. This ideological shift was not limited to recipients of public services but accompanied by a shift in the focus and style of public administration in general in the 1980s toward New Public Management (NPM) (Le Grand, 1997). NPM is an approach to public services that focusses on lessening or removing differences between the public and private sector, and emphasising the value of accountability framed by results (Hood, 1995). This perspective emphasises the role of financial incentives and performance management schemes as key drivers of improved productivity, efficiency, and increased choice for service recipients. In the UK, policymakers advocated for mixed-market provision, resulting, for example, in the introduction of the NHS internal market reforms of the 1990s, that separated providers and purchasers in a still very largely publicly owned and financed health system (Mays et al., 2011).

In the mid-2000s, supply-side reforms expanded the market for public services with an emphasis on consumer choice, provider diversity and activity-based payment by results (PbR) schemes (Mays et al., 2011) to improve broader aspects of public services provision, such as schools, hospitals, and welfare benefits (Cashin et al., 2014). This was a departure from the earlier NPM-focus on performance-based public servant remuneration (OECD, 2005). These changes reflect NPM's focus on greater choice and provider competition (via contracting out to the private or independent sector), and, importantly, a focus on performance assessment and incentives to improve value for money (Hood, 1995, Hood and Peters, 2004). This approach has since been applied to public service provision contracts with the third sector, defined broadly as including non-profits, social enterprises and voluntary organisations (Allen et al., 2011). It is important to locate the emergence of incentives and p4p as part of a marketised approach to public policy that has used supply-side policy mechanisms as the preferred motivational strategy for public services reform in recent decades, particularly in UK health and social care.

The Conservative-led Coalition (2010-2015) and Conservative (2015-2017; 2017-present) governments have followed this trend in policy making and public administration by strengthening rhetoric about the importance of value for money, especially following the 2008 global financial crisis. The Coalition government's reforms were rooted in the need for new approaches to public services financing, and reasonable concerns about the sustainability of public services with an aging population (Dowling and Harvie, 2014, HM Government, 2011). Within public services delivery, the

importance of value for money and payment by results gained increasing prominence for policy makers and application by commissioners of public services (HM Government, 2011).

1.1.2. Social Impact Bonds and outcomes-based commissioning

One form of payment by results[1] that emerged in this period were SIBs, a novel outcomes-based financing and funding model. SIBs were initiated in 2007 as a variant of p4p that uses private investment to fund interventions, where investors are wholly repaid by public commissioners if, and only if, the intervention they funded achieved predetermined outcomes. SIBs are outcomes-based p4p contracts for public services where government purchasers partner with investors to fund interventions that are delivered by a non-profit, voluntary, or private sector organisation. In a SIB, investors are repaid by public commissioners if, and only if, the intervention achieves predetermined outcomes. It is claimed that SIBs offer a 'win-win' policy solution for all stakeholders, where socially-minded investors can foster promising preventative interventions, providers receive upfront funds to scale up existing work, and government purchasers only pay for successful programming (Fraser et al., 2018b, Fraser et al., 2018a). SIBs have been promoted as a way for policymakers to commission public services for difficult social problems that may otherwise be seen as high-risk or untested interventions (Tan et al., 2015).

SIBs are a manifestation of the move toward outcomes-based contracts that emphasises greater performance management, and the adoption of private sector management techniques. They are part of a wider policy shift that promotes the market-oriented management of the public sector via incentives and competition to increase efficiency, productivity, and value for money (Hood, 1995, Ferlie and Pettigrew, 1996). Advocates argue that SIBs will focus providers on the outcomes of services, increase accountability (between governments or grant-making organisations and service providers), improve performance management, and shift financial risk to investors and the provider(s) of services (Buse et al., 2012, Bugg-Levine and Emerson, 2011, Callanan et al., 2012, Fraser et al., 2018b), and bring about more rigorous, data-driven monitoring and evaluation to ensure that governments only pay for 'what works' (Liebman, 2011, Mulgan et al., 2011). Critics warn that actors from intermediaries or investment managers introduce a competitive ethos through performance management schemes that can diminish or erode a non-profit organisation's social mission or commitment to service recipients (Fraser et al., 2018b, Joy and Shields, 2013). SIBs necessitate closer

[1] In this thesis, the terms 'outcomes-based commissioning', 'pay for performance', and 'payment by results' are defined as reimbursement mechanisms where a percentage of payment is conditional on the achievement of predetermined metrics. In all these schemes, there can be varying levels of rewards.

examination to understand the potential risks they present for providers and policymakers given the complexity of public services delivery.

The United Kingdom has emerged as a pioneer in the use of SIBs as a financing mechanism to deliver public services in the last decade. The world's first SIB was launched at HMP Peterborough Prison in 2010 (Disley and Rubin, 2014), and SIBs have since been presented as the answer to some of England's most intractable social problems such as recidivism, youth unemployment, and rising demand for health and social care services. SIBs have held particular salience in an economic climate where public services are pressed to 'do more with less' – notably in the context of fiscal austerity in the UK following the 2008 financial crisis. The Conservative government (2015-2017, 2017-present) has continued to advocate for all government departments to pursue wider application of PbR, personalisation, a focus on outcomes and the introduction of SIBs (Conservative Party, 2015). While SIBs are not mentioned in the 2017 Conservative Manifesto, there are multiple references to the need to improve outcomes in health and social care through a focus on preventative initiatives (Conservative Party, 2017). The UK Central Government continues to supports the use of SIBs and outcomes-based contracts through the Centre for Social Impact Bonds within the Government Inclusion Economy Unit in the Department for Digital, Culture, Media and Sport (DCMS) and the Government Outcomes Lab at the University of Oxford (HM Government, 2017, HM Government, 2016). The DCMS has fostered the development of the SIB market through the Life Chances Fund (LCF) through which government has committed £80 million to support locally developed projects tackling complex social problems through PbR contracts (Cabinet Office, 2018). To date, there are 32 SIBs operating in the UK, 10 SIBs in the United States(US) and 19 SIBs operating in 14 countries that include Australia, Canada, Colombia, India, the Netherlands, and New Zealand (Floyd, 2017).

SIBs have emerged as a policy tool within a wider shift towards greater alignment between social welfare interventions and economic policy. This shift includes a new focus on economic policy, which suggests that public policy exists to support, stabilise, or expand the economy rather than to serve social needs. In this context, public policy appears to have entered a new era where social policy needs should be met by private investment rather than tax revenues (Lake, 2015). The importance placed on demonstrating social value for new public policy interventions has been contested as a process of deepening 'capitalist disciplinary logics' rather than a way of engaging locally responsive social interventions (Dowling and Harvie, 2014). SIBs are a particular manifestation of this trend towards NPM and private financing because they value explicit and measurable standards for

performance and require diverse, non-state providers, such as non-profit organisations, to enter outcomes or activity-based contracts for service provision (Fraser et al., 2018b).

A recent review of the grey and academic literature about SIBs identifies three distinct interpretive narratives (Fraser et al., 2018b). The first, labelled a 'public sector reform narrative' is premised on the view that public, non-profit and voluntary sector organisations have important shortcomings in terms of service design, delivery and accountability, that require private sector management techniques and values, such as sharper financial incentives and 'market discipline' to remedy these issues (HM Government, 2017, Liebman, 2011, Mulgan et al., 2011). The second, labelled a 'financial sector reform narrative', suggests that private sector actors, in particular, private or social investors, management consultancies, and specialist intermediary organisations, can effect socially worthwhile change through social entrepreneurship whilst simultaneously pursuing commercial interests (Liebman, 2011, Nicholls and Murdock, 2012). These two narratives have dominated the literature so far produced by SIB proponents and are often mutually reinforcing.

By contrast, the third, 'cautionary narrative' is more prevalent within the academic literature, and diverges from the first two by taking a more critical view of SIBs on pragmatic and ideological grounds. While this narrative identifies potential benefits to discarding the 'target culture' of NPM and a reliance on process measures through outcomes-based contracts, it also urges caution about the introduction of 'private sector' values to public services delivery (Fraser et al., 2018b). For example, SIBs have implications for transparency and accountability with public funds given the relative 'openness' of public sector contracts, compared with the closed nature of private sector contracts. It is important that there is a degree of public oversight over these contracts because of the risk that private sector interests may value profit generation over the needs of service recipients (Warner, 2013). SIBs can be especially problematic for non-profits because the introduction of a competitive ethos and performance management schemes by private investors and related actors may diminish or erode their social mission (Fraser et al., 2018b, Joy and Shields, 2013). While there are benefits to the focus on outcomes over process targets, this third, cautionary, narrative highlights important considerations about the potential implications of SIB contracts on public services provision. The focus on measuring end results has the potential to mask, or undervalue, the processes and actions undertaken by staff in pursuit of outcomes targets.

The introduction of direct and indirect financial incentives for performance in the non-profit sector requires greater examination, especially as non-profit organisations take on an increasingly important

role in the development, production, and provision of public services. This thesis explores the impact of the financial incentives related to the SIB contract on non-profit providers delivering outcomes-based contracts in UK public services to understand how they affect intra-organisational behaviour and the motivation of staff members.

1.2. Incentives in public services delivery

More research is needed to examine the impact that SIBs, and the incentives embedded in their contracts, will have on non-profit organisations delivering services through them. This is particularly salient as incentives have been the preferred supply-side motivational tool among policymakers for public services reform in recent decades. There has been much enthusiasm about incentives because they are expected to improve accountability and value for money by aligning a provider's actions with the commissioner's interests. Performance-based funding has been widely applied across public services through p4p and PbR schemes using a range of activity-based or relative rewards (e.g. bonuses that constitute a small percent of overall budgets, or withholding funds unless performance targets are met) to try and improve public services. The empirical evidence about the effectiveness of these schemes using individual, team, or organisational rewards is mixed (Lagarde et al., 2013, Van Herck et al., 2011). The evidence from outcomes-based contracts, where all payments are dependent on the achievement of predetermined outcomes, is very limited and suggests that unintended behaviours to generate performance-related payments are widespread in these schemes (Carter and Whitworth, 2015, Mason et al., 2015).

Little attention has been paid to the impact of direct and indirect financial incentives within organisations, particularly on how incentives are transmitted from managers to teams and front line staff delivering public services. A recent review of p4p schemes in health systems of the Organisation for Economic Co-operation and Development (OECD) countries finds that most studies have focused on the impact of incentives at the team-level despite growing theoretical interest in the impact of p4p on organisations (Milstein and Schreyoegg, 2016). While there is some evidence about performance-based financial reward schemes from the private sector (Bandiera et al., 2009) and the public sector (Burgess et al., 2010) about how managers allocate tasks to individuals working in teams, these studies are of limited relevance for this study because staff in the non-profit case studies did not receive pecuniary rewards.

Further, there has been little work evaluating the unintended consequences (both positive and negative) of incentives in public services, especially on the impact that these p4p contracts may have

on service providers drawn from the non-profit sector. There is mixed evidence about the extent and prevalence of unintended behaviours in p4p schemes. A systematic review of the literature finds limited evidence of gaming (i.e. massaging progress towards targets in a performance management scheme to appear more successful than in actuality). This finding is attributed, in part, to limited contexts for comparison to prove gaming (Van Herck et al., 2010). One study finds that creaming (i.e. choosing to focus on those that are most likely to generate outcomes with minimal effort) and parking (i.e. putting aside difficult cases that are unlikely to generate outcomes payments) were widespread in an outcomes-based employment program (Carter and Whitworth, 2015). There is little empirical evidence that explicitly explores unintended behaviours, such as gaming, creaming, or parking; this suggests that more such research is necessary.

It is unclear how non-profit organisations react to the introduction of incentives and outcomes-based contracts. The introduction of direct and indirect financial incentives for performance in non-profit organisations delivering public services requires greater examination as to how incentives will be communicated through organisations, especially the impact they will have on managers and front line workers.

1.3. Impact of incentives on staff motivations

One of the aims of this thesis is to explore the impact of direct and indirect financial incentives on non-profit providers delivering SIBs to understand how they might affect the motivation of staff members. This is of interest to this thesis because the impact of SIB incentives on the motivation of non-profit staff through p4p (and its variants, such as PbR) have often been used as a policy mechanism to increase worker motivation. For example, incentives have been introduced as individual, team-based, or workplace rewards for meeting pre-specified outcome or reward thresholds. Individuals that select into the non-profit sector are assumed to do so because they are highly motivated to do the right thing or serve the public good.

In this study, intrinsic motivation is defined as actions an individual undertakes for the enjoyment of the task itself, for public service motivation, or out of pro-social motivation to 'do good'. Extrinsic motivation refers to activities that are not interesting to the individual (i.e., not intrinsically motivating), such as externally or internally imposed pressures that do not correspond to an individual's goals, values, or preferences. For example, incentives for a non-profit worker to record their actions with clients on a database that reduces the time that is available to them to do intrinsically interesting work with their clients (Lohmann et al., 2016, Gagné and Deci, 2005).

Incentives can 'crowd in' (i.e. where an individual's intrinsic motivation to do their work increases as a result of the incentive) or 'crowd out' motivation (i.e. where an individual's intrinsic motivation decreases because of the introduction of incentives). Recent theoretical work considers an individual's sense of autonomy in how they respond to incentives and suggests that incentives can 'crowd in' an individual's intrinsic motivation, so that the incentives provide intrinsic task enjoyment or personal meaningfulness where they reflect the individual's goals and values (Lohmann et al., 2016).

The empirical evidence suggests that the introduction of incentives can be met by both positive and negative behavioural responses by staff at the individual, team, and facility-based level that depend on the design of, and implementation process for, an incentives scheme (Lohmann et al., 2016). The evidence finds that the impact on motivation varies between individuals according to what is incentivised, the size of the reward, and how rewards are distributed between staff, teams, facilities, or the wider organisation (Bhatnagar and George, 2016, Kalk et al., 2010, Shen et al., 2017, Chimhutu et al., 2014). This thesis explores the impact of the incentives generated through SIB contracts in organisations, and how these changes were articulated at both the managerial and front-line level to understand the potential implications of incentives on staff's intrinsic motivations.

1.4. Research questions and motivation to do this research

The potential limitations and drawbacks of introducing p4p to non-profit organisations delivering public services suggests that the introduction of incentives to non-profits necessitates greater examination as they have the potential to change the principal-agent relationship[2] and erode intrinsic motivation. The introduction of indirect financial incentives necessitates further examination of the impact that p4p contracts have on the behaviour of workers in non-profit organisations. This thesis addresses the research question: *"How do workers in non-profit organisations respond to the use of direct and indirect outcome-related financial incentives?"*

[2] A principal-agent relationship exists where the principal, who can be an employer or the funder of services (e.g., purchaser or commissioner), enlists another party, the agent, who can be an employee or organisation to deliver services on behalf of the principal. The effort the agent exerts is not necessarily observable for the principal due to information asymmetry. In this case, the principal typically has less information about the service than the agent does. As the agent may possess information that they are unwilling to share, they may not act in a way that pursues the principal's best interests. Agents can be compromised by the conflict between their own self-interest and the principal's needs, short-sighted behaviour, or imperfect information so their choices can adversely affect their own, or their principal's professional or financial outcomes (Prendergast, 1999).

1.5. Aims and objectives

The aim of this research is to explore the relationship between financial incentives and organisational and team behaviour in non-profit organisations. This research focuses on the impact of the incentives generated under two different Social Impact Bond contracts on organisational, team, and staff behaviour, and how these changes are articulated at both the managerial and front-line level.

The objectives of this thesis are:

1. To understand how new financial incentives are articulated and prioritised within a non-profit organisation's management and how this affects the way that the organisation plans and delivers services.
2. To understand how senior and team managers respond to extrinsic incentives and the impact that these have on staff structure, task allocation, service delivery, performance management and monitoring outcomes.
3. To understand how team managers and front line staff perceive incentives and outcome-related rewards driven by the SIB, and how this affects their attitudes toward outcome targets.
4. To understand the impact that incentives have on the intrinsic motivation of team managers and front line staff.

1.6. Case studies: homelessness and health

The two SIB projects that are the focus of this thesis were initiated to improve outcomes for homeless individuals in London using an outcomes-focused approach intended to promote a move into settled accommodation and more stable lifestyles. In the early 2010s, there were increases in the numbers of individuals seen sleeping outdoors alongside a rise in 'hidden' homelessness (i.e. individuals not seen sleeping rough on the street but who lacked stable accommodation). At the local authority level, these increases in reported rough sleeping were accompanied by increased demand for services related to homelessness, such as early interventions for new rough sleepers or access to mental health services. This presented a policy problem for local authorities as a growing, entrenched, homeless population presented issues related to anti-social behaviour complaints, increased demand and high costs associated with chaotic interactions with A&E, or entry into the criminal justice system (The Young Foundation, 2011). At the practical level, homelessness services were characterised by a high degree of fragmentation, with services operated by the private, public, and voluntary sector

working in silos. There was a lack of coordination and accountability among the local authorities and service providers that worked in London's 32 boroughs. For the homeless population itself, there were administrative obstacles to accessing services; for example, an individual had to demonstrate a local connection (e.g. previous work or having lived in the area for a set period of time) in the borough to be eligible for assistance. In the absence of an intervention and over the longer term, rough sleepers are likely to require more costly interventions and intensive support to maintain stable lifestyles (The Young Foundation, 2011, Social Finance and The Young Foundation, 2012).

In this patchwork of services and accountabilities, public commissioners chose to test an individualised approach to better enable access to existing services for a group of entrenched rough sleepers in London. The SIB was proposed as a outcomes-based financing mechanism to provide personalised, London-wide services for a group of entrenched homeless individuals with the intent of facilitating a transition to stable accommodation (Mulgan et al., 2011, Social Finance and The Young Foundation, 2012). The Department for Communities and Local Government (DCLG), a department of the UK's central government, committed to providing central government funding for outcomes payments and worked with the Greater London Authority (GLA) to commission two SIBs targeted at a defined group of entrenched rough sleepers in London. The GLA, as the lead commissioner for homelessness services in London, commissioned two SIBs to reduce rough sleeping among a group of 830 entrenched rough sleepers (divided into two fixed groups of 415 individuals) in London in 2012. The GLA acted as lead commissioner and contracts manager throughout the duration of the interventions. Two registered UK charities, were selected to deliver the SIBs to the two fixed groups after a competitive bidding process. Investors were recruited separately by the provider organisations and not part of the competitive bidding process or consultation with the GLA (Mason et al., 2017, Tan et al., 2015).

This thesis explores the impact of financial incentives on two non-profit organisations delivering outcomes-based SIB contracts to understand how the incentives affect intra-organisational behaviour and the motivation of staff members. The impact of introducing outcomes-based contracts on non-profit organisations that provide services for vulnerable populations is a shift in the sector that necessitates greater examination.

1.7. Contents of thesis

This section describes the contents of the chapters in this thesis.

The theoretical context of the thesis is explored in Chapter 2. This chapter presents a summary of the potential issues arising from the use of performance-based funding schemes in public services. It explores the potential impact of incentives on the agency relationship between the service provider and public commissioner. It then considers the theoretical work about incentives on the behaviour of organisations and teams. The impact of incentives on intrinsic motivation is then discussed. Next, the organisation and behaviour of non-profit firms are explored to contextualise the potential impact of SIBs and outcomes-based contracting. This chapter closes by presenting the framework for analysis used in this study.

Chapter 3 sets out the empirical evidence about the relationship between financial incentives and organisational and team behaviour. It first presents the empirical literature about the application of p4p and outcomes-based contracts on public services, the impact on organisations and teams, and what is known about unintended behaviour. Second, it summarises what is known about the impact of financial incentives on provider motivation. This chapter closes with the aims and objectives of this study.

The research methods used for the fieldwork are described in Chapter 4. This chapter summarises the rationale for the comparative case study approach and the advantages of using qualitative methods in an economic analysis. This is followed by a description of the process of site selection and securing access to the providers, data collection, and the analysis of interview data and documentary evidence. It closes with a reflexive analysis of the research methods that considers the strengths and limitations of the research methodologies used.

Chapter 5 presents the study setting. This chapter describes the rationale for the introduction of SIBs in the two case studies. This chapter then discusses the allocation of risk between different actors to understand the incentives in the SIB contracts. This is followed by an analysis of the contractual structure of each SIB and a summary of the financial and reputational risks for each provider. This chapter then presents each provider's actual performance relative to projected outcome targets to illustrate how successful each non-profit provider was in delivering the service. This is followed by a description of each non-profit's approach to service delivery, staff structure and task allocation.

The findings in relation to how the senior leadership team and team managers respond to the introduction of financial incentives are presented in Chapter 6. This chapter is concerned with how the case studies organised, managed and staffed their teams, to understand how direct financial incentives for the organisation are filtered through a managerial hierarchy and affect service delivery. The analysis of senior and team managers' response to incentives highlights the potential implications of outcomes-based contracting for the agency relationship, staff structure, task allocation and service delivery. This chapter explores the meso-level of the organisation to understand how the senior leadership team communicated strategic priorities and how they were interpreted by team managers.

Chapter 7 explores the impact of the incentives in the SIB contract on the agency relationship between front line staff and their senior and team managers. It explores how front line staff interpreted and prioritised the incentives in the SIB contacts. It examines the impact of the SIB contracts and their indirect financial incentives on the behaviour of front line staff, with attention to the potential for positive and negative unintended behaviours. This analysis focuses on the micro-level of the organisation to explore the impact of financial incentives for service delivery.

The impact of indirect financial incentives on the motivation of staff working in the non-profit case studies is presented in Chapter 8. This chapter explores how staff members described their motivation to do their work, choice to select into the non-profit sector and their views on job satisfaction. The chapter then explores the role of extrinsic motivation for staff and whether, and in what ways, it affected how they approached their work. It closes by exploring whether the introduction of financial incentives led to the 'crowding in' or 'crowding out' of intrinsic motivation among staff in the non-profit case studies.

The thesis concludes with Chapter 9. This chapter summarises and discusses the findings of the research relative to the aims and objects of this thesis. It also discusses the strengths and limitations of the research. The chapter closes with a discussion of the contribution that this thesis makes to the existing literature, offers some suggestions as to how the findings are of interest to policymakers and highlights areas for further research.

2. Theoretical background

2.1. Introduction

This chapter explores the theoretical implications of performance-based funding and contracting out in public services delivery. To set out the theoretical context of this study, this chapter reviews the relevant economic literature about agency theory, incentives, and intrinsic motivation. This informs this study's research questions by identifying the potential responses to incentives and the mechanisms by which they might operate. Next, this chapter summarises theoretical work from the economic and management literature about how non-profits are organised and how they behave to establish what is known about the application of direct and indirect financial incentives in the non-profit sector. This provides insights about the potential implications for non-profits delivering performance-based public services contracts. This scoping review draws together the literature about the impact of incentives on agency, behaviour and motivation, and how non-profits are organised to inform the framework for analysis.

First, this chapter presents an overview of agency theory and the potential issues posed by the introduction of new principals, for example, when private or social investors are introduced. Next, incentives theory is discussed as it relates to the impact on agents in organisations and unintended behaviour. The theoretical economic and social psychology literature about intrinsic motivation and motivation crowding is presented to discuss the potential impact of extrinsic rewards on staff motivation. Next, the literature about non-profits, how they are organised and their behaviour is presented to contextualise the potential impact of SIBs and outcomes-based contracting on such organisations. Lastly, this chapter closes with the framework for analysis.

2.2. Agency theory

This thesis explores the impact of a new financing mechanism for public services using outcomes-based contracts for public services delivery. It is important to discuss the theoretical implications of the agency relationship because SIBs introduce new actors, such as investors, to the agency relationship between providers and commissioners. Debates on the optimal structure of public services and delivery are strongly influenced by in the principal-agent model of behaviour. A principal-agent relationship exists where the principal, who can be an employer or the funder of services (e.g., purchaser or commissioner), enlists another party, the agent, who can be an employee or organisation to deliver services on behalf of the principal. The effort the agent exerts is not

necessarily observable for the principal due to information asymmetry. In this case, the principal typically has less information about the service than the agent does. As the agent may possess information that they are unwilling to share, they may not act in a way that pursues the principal's best interests. Agents can be compromised by the conflict between their own self-interest and the principal's needs, short-sighted behaviour, or imperfect information so their choices can adversely affect their own, or their principal's professional or financial outcomes (Prendergast, 1999). To correct for this, contracts can be designed as a way for the principal to link the agent's rewards and effort to the principal's objectives, as they are unable to fully observe the agent's behaviour. While this is possible, the high cost of monitoring providers, outcomes and measurement make it unclear whether greater reporting necessarily improves accountability and results (Lagarde et al., 2013, Eichler, 2006, Eldridge and Palmer, 2009).

Any organisation can be seen as a network of principal-agent relationships that govern the accountability structure, chain of command or formal hierarchy within it. It is important to note that these agency relationships are often more complex than the simple behavioural model above suggests. Agency theory predicts that informational asymmetries and monitoring issues arise that can facilitate agents in acting to maximise their utility at the expense of the overall interest of the organisation. In an organisation, coordinating the activities of these agents through the development of contracts that govern how staff or third parties will be managed is key to effective and efficient organisational operations. While there are complex principal-agent relationships in private firms, (e.g., there can be different types of investors with different time horizons in addition to the board, senior management, middle management and the client-facing individuals, all with different goals), in private firms, the profit motive serves as the main output and organisational goal. By contrast, in public services, there is not a single principal (such as the owner of a private firm) or a single goal, but multiple principals and goals in public and non-governmental organisations (Besley and Ghatak, 2003).

The differences in organisational goals between the public sector and private organisations illustrate the issues underlying the marketization of public services (Stewart and Ranson, 1988). For example, better education services or health care are social goods so agents (employees) are responsible to society as a whole (a principal), among other principals, such as their line managers, or service recipients (Besley and Ghatak, 2003). The development and use of contracts to control for, or motivate certain behaviours is more complicated in public services, as agents serve multiple principals and pursue multiple objectives. Another example is how doctors (agents) are responsible to several

principals: the patient, their hospital administrators, policymakers, their peers or national guidelines to reduce costs or improve quality. While the presence of multiple principals can change the principal agent relationship in the private, public and non-profit sector and can be hard to mitigate, this simple model provides useful analytical insights about the impact of financial incentives on non-profit organisations delivering outcomes-based contracts to understand how they affect intra-organisational behaviour and the motivation of staff members. For example, if an agent's tasks are complementary, issues of free riding in teams will emerge. If an agent's tasks are substitutable, the principal must calibrate payments, risks, or rewards in such a way as to incentivise agents to do tasks at the desired level of output (Besley and Ghatak, 2003). It is important to explore how public sector or non-profit organisations contract services with their staff and partners, and to understand the impact this has on their agency relationships, especially in the context of performance-based funding. The next section considers the use of incentives as a policy tool to correct for some of the issues raised in this section about the agency relationship.

2.3. Incentives theory

Policy-makers have turned to the redesign of incentives as a solution for perceived inefficiencies in production and in response to low quality. Outcomes-based contracts, such as SIBs, introduce incentives for non-profits to demonstrate that they have achieved predetermined outcome metrics in order to trigger performance-related payments. Although all systems of remuneration contain financial incentives, those related to the SIB contract are the focus of this study because the public commissioner introduced them to induce non-profit providers to improve service quality for a target group of clients where conventional services were seen to be 'failing.' This study defines incentives as a mechanism that can be used to induce workers into acting in the interests of their employers (Prendergast, 1999), or a structure of rewards, encouragement, praise or criticism to promote effort or performance (Benabou and Tirole, 2003). It is, however, difficult to design schemes that link performance measures to financial rewards because such incentives can generate unplanned and perverse outcomes (Prendergast, 1999). The introduction of incentives for specific outcomes can change the principal-agent relationship by preventing agents from choosing the appropriate provision of care for a patient or service recipient as their recommendations can adversely affect their own professional or financial outcomes. This can result from information asymmetry.

In the standard neo-classical economics view, it is assumed that actors are rational, selfish, and extrinsically motivated. As such, actors can be expected to respond to extrinsic rewards in a predictable way. This theory relies on stimulus-response theory (which sees behaviour in a black box

way) so that observable changes are based on restrictions on behaviour rather than preferences (see (Stigler and Becker, 1977) for a fuller explanation). As such, it is assumed that incentives can have a positive role in motivating agents to increase their output, or in motivating them to exert a higher level of effort (Becker, 1962). It is expected that behaviours can be controlled through the careful use of rewards or sanctions (Weibel et al., 2010).

There exists strong evidence from the theoretical and conceptual work that incentives do matter in general terms, but there are insufficient predictive models to frame the design of incentives or p4p schemes in a way that guarantees that they will work as intended (Eijkenaar, 2013, Emmert et al., 2012). Prendergast (1999) argues that incentives have strong effects on output where measures of overall performance are available; that tournaments (where the highest performers in a group receive rewards while other performers receive nothing) and team incentives do not necessarily have positive effects on overall performance; the trade-off between risks and incentives are mixed and levels of variations are poorly explained; and that there is insufficient evidence on how employment or performance contracts should be calibrated for workers with complex, or multitask, roles (Prendergast, 1999). There is empirical evidence that direct financial incentives can improve efficiency or productivity, based on studies of single-task agents, often in roles such as assembly line work in factories, tree-planting, or sales (Lazear, 2000, Paarsch and Shearer, 1999, Shearer, 2004). However, these studies have limited applicability for contexts with multitask agents, team settings, or outside the private sector. There is insufficient empirical work, especially about those workers whose outputs are hard to measure, such as in jobs where performance assessments are subjective. More work is required on how best to evaluate the performance of, and set compensation for, workers with non-contracted output (e.g. workers with fixed compensation, or for those who are not paid on a piece rate basis) (Prendergast, 1999).

There is disagreement about the use of financial incentives (via targets or explicit outcomes-based contracting) for outcomes in public services, with some arguing that p4p should have no role in the public sector. There is however, very little evidence on the benefits and drawbacks of team-based production and rewards with attention to the public sector. Burgess and Ratto's (2003) review of the use of incentives in the public sector finds that the design of an optimal incentive scheme is difficult given the high costs of monitoring and the potential for perverse behaviour. For example, where a team contributes to the same output, the principal must specify which aspects of performance or output are most important so incentives and contracts for employment or a project can be developed to best limit the potential for dysfunctional behaviour by agents. Despite efforts to control this,

complementarities in production can increase the potential for free riding when incentives are team-based, or rewards are based on aggregate team performance. Free riding can erode individual effort or dilute the strength of the incentive, and increases with the uncertainty of output measurement and with team size. Since public service outputs are not as readily measured as those in private sector firms (i.e. widgets), it is more complex to design an optimal incentive scheme because public service outputs require more monitoring. This is also seen to be more costly to the principal (Burgess and Ratto, 2003, Holmstrom, 1982) and has the potential to outweigh any efficiency savings derived from the incentives (Burgess and Ratto, 2003). Milgrom and Roberts (1990) demonstrate that where cooperation in a team is important for overall organisational objectives, then rewarding individual behaviour can detract from the team's performance as the marginal cost of effort to cooperate also rises (Milgrom and Roberts, 1990).

Performance pay incentives have been widely used to motivate staff in the public and private sector, but can also negate the impact of other means available to organisations to influence behaviour (Holmstrom and Milgrom, 1991, Eldridge and Palmer, 2009, Karlsberg Schaffer et al., 2015). Holmstrom and Milgrom argue from their models that extrinsic incentives are an insufficient tool to influence an agent's actions and that principals have a range of other tools at hand to influence behaviour, that may be as, or more, effective in modifying staff output, such as shifting ownership of related assets, or varying restrictions on how to do a job. This model argues that it is insufficient to look at tasks in silos, and that principals need to look at the wider system in order to make correct inferences about the activity itself that is to be incentivised (Holmstrom and Milgrom, 1991). The theoretical work indicates that the introduction of incentives for public services is complex and it can be difficult for a principal to design an optimal set of rewards or encouragement to promote effort. Other factors influence provider behaviour, particularly in public services, such as a staff member's motivation to do their work. The next section considers the role of intrinsic motivation of staff to consider the potential impact of incentive schemes within organisations.

2.4. Motivation crowding

The theoretical literature about motivation suggests that extrinsic motivation, such as incentives in an outcomes-based contract, can be counterproductive because it has the potential to 'crowd out' an individual's intrinsic motivation to do his/her work where incentivised tasks do not resonate with personal goals or values (Deci, 1971). At the same time, it is also possible that extrinsic motivation can be a positive influence where the incentives resonate with an individual's intrinsic motivation, thereby 'crowding in' her/his motivations (Gagné and Deci, 2005).

In this study, intrinsic motivation is defined as actions an individual undertakes for the enjoyment of the task itself, for public service motivation, or to 'do good'. This definition is drawn from the four ways that intrinsic motivation is defined in the literature:

- In the first, individuals pursue actions out for enjoyment of the task itself, where they receive no apparent rewards except the act of doing the activity itself (Deci, 1972).
- Second, there exists public service motivation, defined as an individual's predisposition to respond to motives that are based in, or unique to, public institutions and organisations (Perry and Wise, 1990).
- The third, pro-social motivation view is linked to the first and second definitions above, where individuals are motivated by helping others, which stems from both a) impure or action-oriented altruism, where an individual receives a "warm glow" from contributing to the production of a good or service they care about, and b) pure or output-oriented altruism where the individual cares about the overall value of the good or service they contribute to (Andreoni, 1990, Rose-Ackerman, 1996). Francois and Vlassopoulos (2008) draw on these definitions to suggest that intrinsic motivation comes from a combination of these two sources of altruism, so those who choose pro-social work (e.g. services for the infirm or homeless) do so because it makes them 'feel good' and because it is the 'right thing' to do (Francois and Vlassopoulos, 2008).
- The fourth definition draws on Self-Determination Theory, which assumes that incentives will motivate individuals in a particular way but will crowd out intrinsic motivation over the long term (Deci and Ryan, 1980) and extend the analysis away from the dichotomisation of intrinsic and extrinsic motivation in work (Gagné and Deci, 2005). Instead, this view from Self-Determination Theory sees financial incentives as a tool that can foster autonomous motivation in some while impeding it in others. For example, in a SIB, according to Deci and Ryan (1980), external rewards (in the form of outcomes-related payments) would impair self-esteem after an actor is incentivised to perform a task they would have done at no cost because their intrinsic motivation is not acknowledged and not appreciated. This in turn makes the individual less motivated to maintain the same levels of effort, so they will reduce their efforts. By contrast, using Gagne and Deci's (2005) extended theorisation about Self-Determination Theory, the introduction of outcomes-related payment through a SIB can have both positive and negative effects on intrinsic and extrinsic motivation. This will vary with the design and implementation of the SIB and how workers respond to the financial rewards embedded in that scheme.

Extrinsic motivation refers to activities that are not interesting to the individual (i.e., not intrinsically motivating), for example, externally or internally imposed pressures that do not correspond to an individual's goals, values, or preferences (Lohmann et al., 2016, Gagné and Deci, 2005).

In neo-classical economics, it is assumed that individuals in the workforce are rational, resource-maximising decision makers within principal-agent relationships, so one can expect that incentives (either directly tied to rewards or explicit financial ones) will motivate the agent to do the incentivised task, and not dilute the agent's intrinsic motivation to do the rest of her/his job. In the absence of extrinsic incentives, neo-classical economists assume that the agent's efforts will be at the lowest possible level to maintain their job, so the application of incentives is a tool that can be used to induce desired behaviours in rational individuals (Prendergast, 1999). This theorisation views incentives as necessary to motivate individuals, but this pessimistic view of staff motivation fails to consider other motivating forces for staff, such as altruism or a desire to serve the public good. This sort of motivation is likely to be most prevalent in non-profit organisations.

While the neo-classical economics perspective sees individuals as fundamentally responsive to incentives, the social psychology literature argues that the introduction of incentives and rewards can be counterproductive because actors will not maintain the same levels of effort for rewarded actions after they are removed. This ultimately undermines intrinsic motivation and can lead to lower overall outputs or have adverse effects on behaviour (Benabou and Tirole, 2003). According to Self-Determination Theory in social psychology, rewards can motivate individuals to act in a desired way, but tend to do so at the expense of intrinsic motivation, which can have negative effects on self-esteem and self-determination in the longer-term (Deci et al., 1999). For example, external rewards can impair self-esteem where an actor is incentivised to perform a task they would have done at no cost, as their intrinsic motivation is not acknowledged and not appreciated. This in turn makes the individual less motivated to maintain the same levels of effort, so they will reduce their efforts. Likewise, external rewards can impair an individual's sense of self-determination because the imposition of incentives will shift the individual's sense of autonomy (referred to hereafter as their locus of control) away from the individual. The individual will then be aware they are being compelled to act a certain way by external forces and will become disempowered, and not maintain the same level of intrinsic motivation they had before being externally coerced to act that way (Frey and Jegen, 2001, Kreps, 1997). When applied at the organisational level, it has been found that when organisations use rewards as a way to control behaviour, this often involves more surveillance,

evaluation and competition, all of which undermine intrinsic motivation (Deci and Ryan, 1985, Kohn, 1993).

Standard neo-classical economic theorisation tends to place too much value on the power of payment-based measures, and places an overreliance on the principal's capacity to skillfully apply the price effect to their work and choices when exerting effort (Frey and Jegen, 2001). Motivation crowding theory blends the economics and social psychology literature by positing that intrinsic and extrinsic motivation should be viewed as a continuum of individual preferences along two poles. In this model, preferences change under two conditions: a change in behaviour because of a change in preferences; or if there is a change in the nature of the performed task, task environment or the actor's self-perception of the task. For example, a change in preferences can be the result of a change in signals as to the nature of a task received by the agent. This theorisation requires the following assumptions: that all interventions are external to the person under consideration and that these outside interventions only crowd out, crowd in or leave intrinsic motivation unchanged (Benabou and Tirole, 2003, Frey and Jegen, 2001). This theorisation is supported by Besley and Ghatak's (2005) work that suggests agents' preferences can be disrupted by the introduction of extrinsic incentives, which serve to alter their willingness to donate labour or for the 'positive feelings' associated with doing good as a compensating differential (Besley and Ghatak, 2005). For example, the theory would suggest that teachers accept lower pay because they are intrinsically motivated by a commitment to public education as a social good, however, education policy reform has been dominated by closer surveillance and externally-imposed performance targets, which curtails self-determination and discretion, thereby crowding out work morale (Frey and Jegen, 2001).

More recent work argues that agents have a wider range of preferences and autonomy in how they respond to incentives than the motivation crowding model suggests. One study provides an economic model in support of this. This model about street level bureaucracies studies the implications of personnel policy on altruistic agents in a bureaucracy serving different types of clients, to understand how staff self-select into their roles, and about their allocation decisions toward clients. It suggests that the use of incentives among altruistic agents is complicated, as agents have private knowledge about their own preferences relative to each client. The interests of the principal and agent are not always aligned, so the agent can make decisions that are not necessarily in the principal's interest which vary depending on their feelings of warmth or indifference to the client (Buurman and Dur, 2012). This suggests that agents have a wide range of preferences that influence their motivation, such as how they select, form and foster relationships with clients beyond

performing actions solely for the feeling of 'doing good,' that are more complex than a diametrically opposed continuum.

The current public health and economics literature on motivation uses an intensity approach to motivation. The intensity approach is drawn from the psychology literature that defines work motivation as a "set of energetic forces that originate both within as well as beyond an individual's being, to initiate work related behaviour and to determine its form, direction, intensity and duration" (Pinder, 2008 p.11). As with the justification for performance-based funding schemes, it assumes that in the absence of incentives, health workers do not always perform as well as they could (Eichler, 2006). Recent literature argues that this conceptualisation of motivation crowding as dichotomous should instead reflect more recent theorisations of motivation (Gagné and Deci, 2005). Lohmann et al.(2016) use Self-Determination Theory to extend the theoretical work by challenging the dichotomisation of intrinsic and extrinsic motivation (Gagné and Deci, 2005, Lohmann et al., 2016). In this theorisation, Self-Determination Theory, as defined by Deci and Ryan (1980) is best thought of as an extension of the traditional approach in which intrinsic and extrinsic motivation are dichotomised (Gagné and Deci, 2005). It builds on the motivation crowding theory work described above and the deficiencies of agency theory, which is critiqued for offering a largely descriptive and unspecific account of individual worker's motivations. It is not intended as a competing theory for agency theory but to complement it as an explanatory theory (Lohmann et al., 2016).

Lohmann et al. (2016) draw on Gagne and Deci's (2005) recent work on Self-Determination Theory to develop a theoretical framework that argues that incentives can have both positive and negative effects on intrinsic and extrinsic motivation. This can occur in different ways that vary with the design and implementation of the financial incentive scheme and how workers respond (Gagné and Deci, 2005, Lohmann et al., 2016). For example, Lohmann et al.(2016) argues that it is helpful to complement intensity approaches with approaches that focus on motivation composition to improve our understanding of worker motivations because there exist varied internal and external drivers of performance (Lohmann et al., 2016, Henderson and Tulloch, 2008, Willis-Shattuck et al., 2008). This theorisation argues that it is important to consider how individuals respond to incentives relative to their feelings of competence and autonomy (Gagné and Deci, 2005).

This thesis draws on Lohmann et al.'s (2016) framework because it is a novel approach to the impact of incentives on intrinsic and extrinsic motivation that suggests incentives can have both positive and negative effects that vary with the design and implementation of a financial incentive scheme. The

framework assumes that the following factors affect how motivation is constructed: opportunities for participation and feedback, transparency, supervisor's support for proactive behaviours, constructive supervision and performance feedback and the perceived contingency of rewards. An individual's sense of autonomy and competence in delivering a service under a particular incentive scheme is of interest to understanding how outcomes are introduced and under what circumstance they allow workers to achieve a sense of self-efficacy[3] (Lohmann et al., 2016). This thesis applies these theoretical approaches to motivation to contextualise and analyse the impact of the SIBs' indirect incentives on motivation, thereby extending what is known about motivation crowding theory.

2.5. Organisation and behaviour of non-profits

This section provides a summary of the economic and management literature on the organisation and behaviour of non-profits. First, it explores how non-profit organisations differ from the public sector or for-profit firms. Second, there is a discussion about the impact of incentives on team behaviour to establish what gaps exist in the literature on the use of financial incentives in the non-profit sector.

2.5.1. Organisation of non-profits

A non-profit organisation is not accountable to shareholders or owners with the right to access to its earnings (as revenues, dividends or profit), but may still earn surpluses, which can be reinvested, kept as endowment, or used for charitable purposes. Non-profits differ from for profit firms as they are not profit-maximising (Hansmann, 1980). However, if the non-profit's organisational aim is to maximise their charitable impact, they may then seek to earn surpluses that can be distributed towards greater charitable spending. In such a case, it is possible that the non-profit would seek to maximise profits, however the non-profit differs from a for profit firm because they do not distribute their profits to stakeholders. Non-profits differ from for-profits and the public sector because they are able to tap into different revenue streams (Anheier, 2005). However, unlike private firms, non-profits are expected to ensure their programs and activities remain aligned with their organisational mission to ensure that new endeavours meet the right balance of contributions to organisational mission and economic viability (Anheier, 2005).

[3] For example, "If nurses strongly value their patients' comfort and health and understand the importance of doing their share of the unpleasant tasks for the patients' well-being, the nurses would feel relatively autonomous while performing such tasks (e.g., bathing patients), even though the activities are not intrinsically interesting." (Gagne and Deci 2005, p348)

There exists a wide range of non-profit organisations. It is important to note the differences in organisational type within the sector to understand how they differ from one another and from private and public sector provision of goods and services. In a mixed economy, non-profit firms are present in many industries, and funded by a mix of donations, government grants, public spending and private endowments. They are also able to charge users for services in the same way that private for-profits do. The funding structure, and sector that a non-profit operates in, can affect the organisation's behaviour and mission. For example, there exist donative non-profits (e.g. a charity focussed on combating cancer) led by donor interests, such as improving access to cancer screening, which can be less likely to face cost-cutting incentives if the services they provide are not cost-effective or clinically effective. The proliferation of types of non-profits has necessitated more nuanced economic theories specific to non-profit firms (Hansmann, 1980, Hansmann, 1987, Rose-Ackerman, 1996) because these differences in funding sources, and level of commercial mindedness, hold implications for how incentives are communicated through organisations, relative to the goals and interests of the organisations.

Early models of non-profit organisation and behaviour argued that non-profits were productively inefficient, defined as a failure to minimise costs due to an absence of ownership claims to residual earnings (Hansmann, 1980, Alchian and Demsetz, 1972). It was also argued that non-profits arose because their comparative advantages outweighed the inefficiencies that accompanied the non-profit firm's capacities, such as lack of access to capital and low incentives for cost minimisation (Hansmann, 1980). However, this theorisation neglected the complexity of non-profits, which, like the public sector, have many principals to serve. In recent years, the non-profit sector has become increasingly professionalised and subject to greater scrutiny by both government and public donors to improve both accountability and value for money (i.e. through demonstrable outcomes) with donated or grant funds. This is part of a wider shift, beginning in the 1990s, for non-profit firms to become more commercially-oriented, blurring the distinction between the not for profit and for profit sector (Weisbrod, 1997, Weisbrod, 1998).

In the UK, policymakers have focussed on the importance of scaling up social business and empowering local organisations to deliver social services (HM Government, 2011, HM Government, 2014) through the third sector, as part of the 'social economy'. This has been intended to harness entrepreneurialism, for example, in health and social care, through the introduction of new providers to improve quality and foster innovation (Allen and Jones, 2011). This is because non-profits, as part

of the third sector, may be more effective in mobilising 'prosocial behaviour' than for-profit private enterprises due to their 'intrinsic' social motivations (Bartlett, 2006, Allen et al., 2011).

The long-term impact of external pressures for non-profit organisations to be more entrepreneurial and commercially minded by entering outcomes-based or performance-based funding contracts on organisational, team, and staff behaviours is unknown. The evidence suggests that the effort required to satisfy multiple principals (i.e. to demonstrate accountability with donated funds and entrepreneurialism) can lead to the inefficient allocation of financial and human resources within the organisation (Foster and Bradach, 2005). The impact of these changes on behaviour in the sector are of interest as SIBs represent a new contractual arrangement, where non-profit actors enter performance-based funding relationships with investors. The introduction of new contractual relationships can affect organisational behaviour in ways that can change the agency relationship and non-profit staff's intrinsic motivation.

It is relevant to examine the impact of shifting contractual structures and ownership models on non-profit service delivery given the introduction of outcomes-focused service models. At the managerial level, more research is needed to understand how managers prioritise new organisational priorities; for example, when asked to implement services with high financial benefit but low social value, which can be at odds with the organisational mission and their own personal motivations (Anheier, 2005).

2.5.2. Behaviour of individuals in non-profit organisations

Non-profit organisations have criticised the focus on outcomes because it neglects their unique characteristics (e.g. autonomy from government and accountability to service users). They have argued that this can undermine their social missions and independence from the public sector (Alcock et al., 2013, Harlock, 2014). There is some evidence that the use of non-profit organisations in the third sector, as delivery arms of the government can be suboptimal. For example, potential drawbacks to contracting out service delivery are that the government has limited oversight over the non-profit organisations they work with (in comparison with public ownership and operation), which can be unstable due to a lack of asset ownership, inability to borrow funds, and lack of investment capacity (Mullins et al., 2011). The use of non-profits for service delivery is also likely to come at the cost of fewer public providers and may exacerbate fragmentation in public services, rather than foster innovation (Allen and Jones, 2011).

The ethos and operational focus of a non-profit organisation is closely linked to its mission statement – a powerful motivational tool, similar to that of profit-maximisation in for-profit firms. Non-profits tend to have well-defined, focussed mission statements that are expected to enable the recruitment of similar minded, self-selected people. Their non-distributional structure and the absence of equity holders can demonstrate and reinforce staff's belief in the organisation's cause, while enabling managers to persuade staff to accept lower wages, relative to their skill set, especially if the revenue forgone could be allocated instead to organisational priorities (Rose-Ackerman, 1996). The mission statement provides a guiding principle that frames the organisation's focus and area of work, and can draw in potential employees and volunteers whose views and values are aligned with the non-profit. It is therefore important that non-profits seek funding for work that is seen to complement and build on their organisational mission. When non-profits embark on work that is perceived to detract from or be poorly aligned with their mission, there can be 'mission drift,' which is described as commercial activities a non-profit engages with that may divert time, resources, or energy away from the non-profit's mission (Weisbrod, 2004).

Staff in non-profits are assumed to be motivated by altruism and/or willingness to do good in return for limited, or below market, compensation (Hansmann, 1980, Rose-Ackerman, 1996). This willingness to trade off financial gain for the positive feelings derived from altruism or 'doing good' is used to explain the high degree of donated labour in the non-profit sector, where donative labour is defined by the assumption that there exists a negative relationship between intrinsic motivation and worker pay (Hansmann, 1980, Preston, 1989, Rose-Ackerman, 1996, Frank, 1996).

In non-profit firms, we expect that intrinsically motivated team workers will be willing to donate some of their labour if their own motivations are satisfied by the ethos or mission of their organisation, so they will trade monetary compensation for intrinsic, relational or social incentives, which are expected to exert a positive impact on individuals (Borzaga and Tortia, 2006). This trade-off is described as the compensating wage differential where workers in non-profit firms were willing to work for lower wages because they gained additional, intrinsic benefit from their work (Frank, 1996, Benz, 2005).

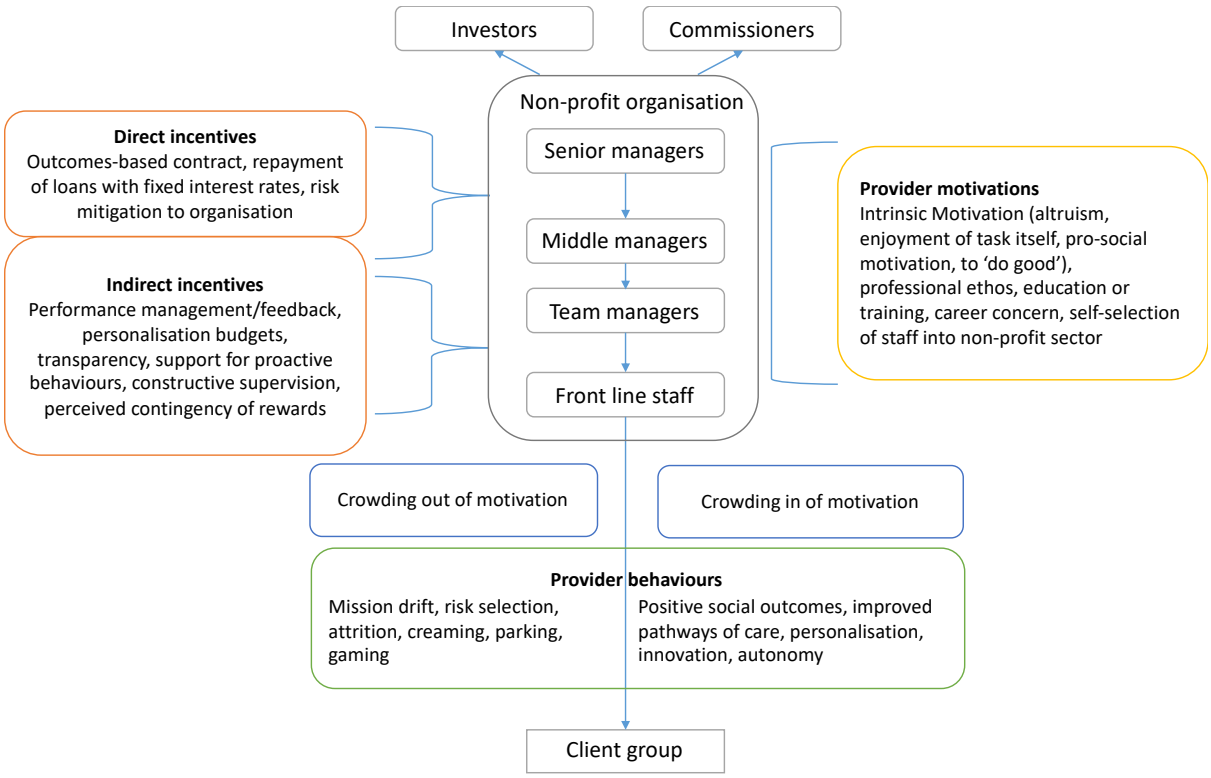
While there are benefits to having staff that are highly motivated to do good, non-profits are also critiqued for organisational amateurism and low productivity. For example, non-profits are often dependent on donations and may not be able to expend funds on staff training and development. This can result in sub-optimal human resource skill sets or attrition to other industries so the non-

profit will be unable to maintain necessary staffing levels. For example, a non-profit can rely instead on volunteers and amateurs who are poorly prepared for the work they are asked to do (Anheier, 2005). One economic model studies self-selection by managers into the public and private sector in a perfectly competitive market. It argues that the non-profit and public service sectors are stunted because they are unable to attract or retain the 'best and brightest' because of low remuneration or sufficiently talented teammates, as the most promising staff choose the private sector (Delfgaauw and Dur, 2010). It is likely that workers in the non-profit sector are motivated by a desire to do good, serve the public, or contribute to a certain cause because the sector is assumed to rely on high levels of donative labour. This thesis seeks to understand whether staff's intrinsic motivation to select into, and accept lower compensation in, the non-profit sector can be eroded by the introduction of financial incentives.

2.6. Framework for analysis

Several key concepts arise from the theoretical literature review presented above, and have been organised into two categories that will form my framework for analysis in considering what impact a SIB contract can have on the behaviours of managers and staff in non-profit providers. Firstly, there is *provider motivation for staff in the non-profits,* which includes the factors that drive an individual to work in a pro-social organisation, such as intrinsic motivation and professional ethos. Second, there are the *extrinsic rewards* found in a SIB contract, such as the introduction of an outcomes-based contract or performance management. Given that workers in non-profits are expected to be intrinsically motivated and serve multiple principals, the introduction of a SIB contract has the potential to change the agency relationship or erode intrinsic motivation. Combined, these two categories may have a direct effect on the behaviours that determine *outcomes for service recipients* (See Figure 2.1 below for a diagram of how these form a framework for analysis).

Figure 2.1 Framework for analysis



To deliver a SIB contract for a target population, commissioners rely on non-profit providers to deliver the intervention, with the expectation that non-profit staff are highly motivated to do the right thing for their clients. Motivation in teams is aided by the factors related to positive perceptions of the indirect incentives from management, such as opportunities for participation and feedback, or the perceived importance of the rewards themselves (Lohmann et al., 2016). It is expected that workers that self-select into the non-profit sector exert effort for several reasons, for example, a desire to help others, altruism, or intrinsic motivation. As a result, they will trade monetary compensation for intrinsic, relational or social reasons if their own motivations are satisfied by the ethos or mission of their organisation (Borzaga and Tortia, 2006).

At the organisational level, decisions about the non-profit's priorities are shaped by broader environmental and market factors that affect the third sector. For example, how widely p4p financing mechanisms are applied, and whether, or how much, the sector will embrace the use of outcomes-based contracting. The uptake of such broad incentives will determine the options that a non-profit organisation and its managerial hierarchy can use to influence front line staff behaviour in meeting its organisational goals (i.e. in this case, the outcomes associated with the SIB contract). Multitask principal-agent theory, also identifies issues arising from such a situation, for example, where agents have multiple tasks, it is likely to be difficult for a principal to motivate the agent to act in a particular

way (Holmstrom and Milgrom, 1991). Figure 2.1 (above) provides a framework for analysis to understand the impact that direct and indirect incentives in a SIB contract may have on staff motivation and behaviour.

In a SIB, the agent (here the non-profit) has multiple principals, including its client group, commissioners and investors, and this can create tensions or conflicts of interest for the agent, since what is best for the investor is not necessarily what is best for the client group or the commissioners. As agents in a SIB contract are responsible to multiple principals (such as the investors or commissioners) who can have divergent interests because of the introduction of direct and indirect financial incentives. Hypothetically, the agency relationship can change in the following ways:

Firstly, if the agent acts to serve the self-interests of other principals (such as the investors, by maximising profit generation for investors), they might work harder on behalf of those clients that will maximise revenue in the form of higher outcome payments. This problem is known as 'risk-selection' or 'creaming' and can arise to the detriment of service provision to the wider client population.

Second, if the organisation receives financial incentives for meeting specific targets or outcomes, their managerial techniques might change through the introduction of sanctions or rewards for front line staff to induce them to behave in particular ways. For example, managers might use non-monetary sanctions or rewards on front line staff to motivate them to meet, or prioritise certain targets over the well-being of others (for instance, encouraging staff to 'park' more difficult clients or disciplinary measures if staff do not willingly 'park' clients). In this case, agents may disproportionately allocate their time and effort to ensuring that some individuals generate outcomes payments so they are unable to dedicate time to other group members, resulting in a suboptimal allocation of resources and services for the wider target population.

Third, agents may take advantage of asymmetries of information between principals and exaggerate or falsify outcomes data, to meet targets. This problem is known as 'gaming', and can arise as a mechanism that enables the agent to exert effort on members of the target population who need support but are least likely to generate outcomes (e.g. falsified outcomes allow front-line staff to spend more time with more complex clients who are less likely to generate outcomes payments). It may also lead staff to exert less effort overall since they have generated a fixed amount of money for the organisation, or appear to be very productive and efficient in meeting outcomes. This will be

detrimental to the quality and volume of services rendered to the target population, particularly if equity in service provision is important to the commissioner.

To mitigate the potential for such adverse behaviours, it is the responsibility of the managerial staff to set out clear expectations for service provision. While these are not intrinsically good practices for non-profits faced with financial incentives, from the perspective of the public commissioner interested in improving public services in an equitable way, it is important to consider whether, and to what extent, it is possible to ensure that that equal efforts are made for all members of the group, or that personnel appraisals are not based on how many outcomes an individual staff member generated. These management practices can result in positive behaviours, such as 'crowding in' of motivation, greater autonomy for front line staff, or a more personalised approach for group members, while increasing awareness of the outcomes targets and improving service pathways. This also raises the issue of which principal is ultimately responsible for trying to balance the various combinations of goals that could be pursued, such as the balance between outcome maximization overall and ensuring equity of outcomes between different types of clients. This is ultimately the role of the public commissioner to consider due to the government's ultimate responsibility to deliver public services.

Although non-profits are expected to behave altruistically, there is the potential that an organisation will prioritise revenue generation and condone adverse behaviour, given the possibility of changes to the principal-agent relationship outlined above. It is also possible that the whole organisation will knowingly promote adverse behaviour to maximise revenue generation. In the case of low performance, it is possible that there can be investor sanctions on the organisation, which can encourage the use of sharper managerial techniques to push middle managers and front-line staff to meet outcomes. There is the potential that these techniques will result in mission drift and a distortion of the values that drew staff to the organisation. This can also lead to staff attrition or an erosion of staff's intrinsic motivation in their work or the motivating factors that drew them into the non-profit sector. This framework for analysis will be tested in the empirical chapters (Chapters 6-8) of this thesis to examine the impact of direct and indirect financial incentives on two non-profit organisations.

2.7. Conclusion

This chapter illustrates the potential issues arising from the application of performance-based funding schemes on staff in public and non-profit organisations. The theoretical work indicates that the

introduction of incentives for public services is complex and it can be difficult for a principal to design an optimal set of rewards or encouragement to promote effort. As a result, the introduction of incentives has the potential to change the principal-agent relationship. The theoretical literature also suggests that incentives have the potential to 'crowd-in' or 'crowd out' intrinsic motivation among workers in ways that depend on the degree of autonomy and competency that staff have in delivering a service under an incentive scheme. These theoretical concepts are of interest because staff in non-profits are seen to self-select into the non-profit sector for altruistic reasons or because they are motivated to do good. These motivations may be eroded in the case of mission drift or introduction of direct and indirect financial incentives for non-profit staff. It is important to consider what the impact of changes in the design and structure of public services contracts for non-profit staff will be. The next chapter builds on these theoretical insights by exploring the empirical evidence related to performance-based funding and motivation in public services to assess the degree to which the evidence supports or disagrees with the theoretical propositions outlined in this chapter and the framework for analysis presented in the preceding section.

3. Empirical literature review

3.1. Introduction

Performance-based financing policy instruments, such as p4p, are intended to incentivise improvements in quality, efficiency, and productivity, while maintaining a degree of equity in the distribution of time and resources for individuals, in service delivery. These are criticised for their focus on process measures, targets and the implications for equity, rather than outcomes. Moreover, there are unanswered questions as to whether the incentives posed by these schemes lead to adverse behaviour, unintended consequences or erode staff motivation. SIBs and outcomes-based contracts have been developed to ameliorate the shortcomings of p4p and PbR by focusing on long-term outcomes rather than intermediate measures of performance. However, there remain questions as to whether these mechanisms enhance service quality, lead to efficiency gains, or improve outcomes. This chapter sets out the empirical evidence about the impact of direct and indirect financial and non-financial incentives in public and non-profit organisations delivering public services on organisational, team, and individual behaviour and motivations[4] to establish what is known and what remains to be answered about the application of such incentives.

The theoretical literature presented in Chapter 2 (Theoretical background) suggests that incentives have the potential to change the principal-agent relationship and to affect intrinsic motivation among workers in the non-profit sector. The framework for analysis (see Chapter 2, Section 2.7) views organisational, team and individual behaviours as influenced by the impact of direct and indirect incentives alongside, and potentially in opposition to, providers' motivations. This chapter seeks to explore the empirical evidence related to these two areas of the theoretical literature. It first reviews the empirical evidence on p4p schemes, specifically the application of p4p on the teams and organisation and its impact on provider behaviour and unintended consequences. Second, this chapter reviews the evidence on the impact of direct and indirect incentives on intrinsic motivation to establish what is known about motivation-crowding.

[4] While the focus of this study is on the impact of direct and indirect financial incentives on two non-profit organisations, there is limited empirical research about the use of p4p and outcomes-based contracts for non-profits delivering public services. This chapter looks at the application of p4p-related incentives on any organisation delivering public services through a performance-related funding scheme to reflect the breadth of empirical evidence available about the impact of p4p on provider behaviour.

3.2. Methods for identifying literature

Two strands of empirical literature were examined to explore the impact of direct and indirect financial incentives on non-profit providers. These were: 1) impact of p4p programs; 2) impact of performance-based funding on intrinsic motivation.

Searches on the empirical literature were conducted to answer the following questions:

- What is known about the impact of p4p programs on organisations, in teams and on provider behaviour?
- What is known about the impact of incentives on intrinsic motivation?

A scoping review of the literature was undertaken using online databases in November of 2016. This was an iterative process conducted throughout the research study. A final search was conducted in January of 2018 to include all relevant papers.

Impact of p4p programs

A formal search strategy was used to identify empirical evidence about the impact of p4p programs on team and provider behaviour. A search of the published peer-reviewed, academic literature used bibliographic databases EconLit, Cochrane, IBSS, PubMed and Google Scholar. The searches were conducted in English and used the following search terms ("pay for performance" OR "p4p" OR "performance pay" OR "payment by results") AND (team* OR staff OR behavio?r* OR manager* OR adverse OR gaming OR organi?ation* OR non?profit). Searches were performed in English for all dates without restrictions. Titles and abstracts were scanned for inclusion in this review. Studies about performance-based financial rewards were excluded if they did not relate to the public services delivery, the impact on team or organisational behaviour, or on the potential for unintended behaviours. Other relevant references were hand-sourced from already identified publications. The review included any study type if the study included empirical data on the impact of p4p on team and organisations.

Impact of performance funding on intrinsic motivation

A formal search strategy was used to identify the literature on motivations and the non-profit or public sector. Searches were conducted on Google Scholar and EconLit for “intrinsic motivation” and (“pay for performance,” “p4p,” “payment by results,” “PbR,” “results-based financing,”) or “results-based financing” or “RBF”. Papers were excluded if they did not include empirical data. References were hand sourced from the reference lists of identified publications. A small number of research

projects were identified that generated most of the literature on the impact of p4p incentives on motivations. These authors' publication lists were hand searched for relevant work about the impact of incentives on motivation.

3.3. Impact of p4p programs

The use of performance-based financing policy instruments, such as p4p, are intended to incentivise improvements in quality, efficiency, and productivity, while maintaining equity for individuals receiving services. The application of performance funding to public services delivery emerged in the late 1990s in the United States, where p4p was introduced to improve quality in health care and to introduce incentives for cost-containment. The application of this financing mechanism to public sector service delivery has grown across the UK and other OECD countries, notably in health care and education. In health care, new financial incentives have emerged to incentivise improvements in quality, efficiency, and productivity in service delivery using a range of provider payment mechanisms, such as performance-based contracting or p4p variants (Cashin et al., 2014). In education, performance pay has been introduced to improve student performance or teaching quality, using performance related pay for individual teachers based on supervisor evaluations, work portfolios, and student test scores (e.g. incentives using standardised testing to gauge teacher performance) (Podgursky and Springer, 2007, Marsden and Belfield, 2006). There is mixed evidence from the health sector about the effectiveness of such schemes in demonstrating better quality or productivity (Lagarde et al., 2013, Van Herck et al., 2011), and a lack of robust quasi-experimental evaluations of such schemes (Flodgren et al., 2011, Scott et al., 2011). Despite the mixed evidence, the UK Central Government has sought to increase the number of p4p and outcomes-based contracts in public services (HM Government, 2011, HM Government, 2017). Given the government's commitment to increasing the use of such payment schemes when contracting out services to the third sector, it is important to consider the evidence about the impact of p4p schemes.

This section examines what is known about the impact of p4p on organisations, in teams, and on provider behaviour when applied to public services delivery through non-profit (and public organisations where relevant). This section first presents what is known about p4p schemes specifically using outcomes-based contracts. This is followed by findings about the impact of p4p on organisations and teams in the non-profit (and, where applicable, the public) sector. Lastly, the evidence from studies that examine the impact of unintended behaviours is discussed.

3.3.1. Impact of outcomes-based p4p programs

The UK government has encouraged the use of outcomes-based measures via novel, and atypical, financing mechanisms like SIBs to allow service providers greater personalisation, freedom, and creativity in service delivery than traditional financing mechanisms, such as process measures or block contracts (Conservative Party, 2015, HM Government, 2011, HM Government, 2017). There is limited empirical evidence about p4p schemes using outcomes-based contracting. This section considers the limited evidence on schemes where the majority of the funding was dependent on outcomes achieved or where outcomes-based p4p schemes put varying proportions of funding at risk.

There are a small number of studies looking at the impact of outcomes-based contracts on at the provider level and on the individuals, teams, or organisations involved. One study of the UK's national 'payment by results for drugs recovery pilot' finds that the introduction of payments for outcomes had a significant negative impact on successful treatment completion rates. The authors interpret this finding to suggest that it was possible that providers chose not to discharge service users because of the high proportion of outcome rewards associated with individuals not re-presenting for treatment in the 12 months following discharge. It appeared that providers were foregoing the high outcome rewards for successful completion to mitigate the risk of individuals re-presenting after discharge because outcomes payments would be withdrawn or clawed back if users re-presented within 12 months (Mason et al., 2015).

Two UK studies examine a DWP employment scheme targeted at the long-term unemployed. This was an outcomes-based PbR scheme in which providers had substantial flexibility over their interventions, and payments were adjusted for case complexity or difficulty. In this scheme, the target population were placed in one of nine claimant groups linked to the average difficulty of securing employment for these individuals, to mitigate the risk of 'parking' and 'creaming'. The bulk of these service delivery contracts were held by the private sector (35), with the remainder held by third sector organisations (3) and public sector organisations (2). The use of private sector providers is noteworthy because they can have different organisational priorities that affect how they respond to financial incentives. These studies find that there is evidence that the use of differential group payments did not mitigate the incentives for creaming and parking within the scheme for service providers due to cost-pressures and ambitious performance targets (Carter and Whitworth, 2015, Rees et al., 2014). The evidence from outcomes-based p4p schemes suggest that the existing schemes are unable to mitigate unintended consequences when process-driven service delivery specifications are removed.

3.3.2. Impact of p4p on teams and organisations in the public and non-profit sector

There is limited evidence about the organisational level impact of financial incentives on how service delivery organisations respond to, implement, and transmit p4p objectives to their staff. There are a small number of relevant studies about service delivery among public providers of health care. An ethnographic study of two general practices explores the impact of the UK Quality and Outcomes Framework[5] (QOF), a p4p scheme to increase funding in general practice through payments for meeting outcome measures based on clinical quality. In both sites, GPs and practice managers used surveillance techniques to measure progress towards the performance indicators incentivised by the QOF. There were reports of free-riding by some GPs. Some staff felt it was an additional administrative burden while others saw it as conflicting with their duty to spend time with clients. Nurses appreciated that the incentives scheme provided them with more autonomy and responsibility in certain disease areas. Doctors and nurses were positive about the incentive scheme though some reported a sense of constant surveillance (McDonald et al., 2007).

A qualitative study of a p4p scheme in Tanzania where the senior staff in health facilities were able to distribute performance-based rewards to workers at their discretion finds that the dispersal of p4p bonuses varied between sites. In some health facilities, it exacerbated divisions between medical and non-medical staff (e.g., in one site nurses and security guards received the same bonus), with some staff arguing it should be a flat rate while others felt medical staff deserved more. The authors suggest that p4p impeded team-working and collaboration because the p4p-related bonuses were perceived as arbitrary (Chimhutu et al., 2016). While this study explores perceptions of incentives and rewards among staff within organisations, it is unclear how managers communicated the incentives and rewards to their staff, and how that affected their approach to service delivery and organisational behaviour. A quantitative study from Denmark explores whether p4p payments in secondary care are more effective at the hospital or department level. This study finds that departmental level rewards lead to higher performance than organisation level ones (Kristensen et al., 2016). This paper is unique in its focus on how rewards are distributed in an organisation as a recent review of p4p schemes in OECD countries finds that there were few evaluations of p4p

[5] The UK Quality and Outcomes Framework (QOF) is a p4p scheme that was introduced in 2004 to all general practices in the UK NHS. It provides performance-related payments that can constitute up to a quarter of general practice incomes. Rewards are available for meeting outcome measures based on clinical quality for over 100 publicly reported clinical indicators in three domains: chronic disease management, organisation of care and patient experience (Ryan et al., 2016).

schemes outside Anglo-countries and despite growing theoretical interest in the impact of p4p on organisations, most studies focused on the impact at the team-level (Milstein and Schreyoegg, 2016).

A small number of studies explore the impact of incentives on managerial and team behaviour in the private and public sector. One private sector study examines the impact of managerial performance pay on worker productivity and finds that managers selected high ability workers for incentivised tasks and that those least able are less likely to be selected into employment (Bandiera et al., 2007). Another study of a performance-related pay pilot in two teams in the public sector finds that individual productivity rose alongside the reallocation of more efficient workers towards incentivised tasks. Interestingly, this study rewarded the team managers of each team differently with one team manager able to gain a larger reward while the other shared the bonus equally with the team. This provided the opportunity to assess whether higher managerial rewards resulted in more strategic managerial behaviours, but this study finds that the second team was successful in hitting its targets, while the first team was not. This finding was interpreted to suggest that team managers were not just motivated by financial incentives but by other intrinsic factors such as career concerns (Burgess et al., 2010).

Another study from the private sector examines the development of cooperative norms among workers under a relative incentives scheme and found that individuals quickly learn how to cooperate in the workplace to be less productive as a group. These collaborative norms enabled staff to be less productive than in a counterfactual group where workers were paid on piece rates (Bandiera et al., 2005). This study has direct relevance for the experimental literature on public good and common pool resources but holds limited relevance for the current study as to how non-profit workers respond to indirect financial incentives. Another study from the UK's public sector examines the impact of team-based performance pay and finds that the schemes were more effective in small teams than large ones. The authors interpret these findings to suggest that peer monitoring and improved information flows can overcome issues associated with free riding in small groups, unlike in large groups or multi-office locations where staff were too dispersed. The focus here on public sector workers is more relevant to this research because such schemes focus on cooperation across workers, rather than the use of relative performance evaluation to promote competition between workers as seen in the private sector (Burgess et al., 2017).

These studies were all in settings with performance related pay in team settings and do not provide further insight about how managers and teams work under a scheme of indirect financial incentives. This is a weakness of the existing literature on p4p and merits further consideration.

3.3.3. Evidence about unintended consequences

The empirical evidence on unintended behaviour is limited. Findings about adverse behaviour or gaming often emerged from qualitative interviews conducted as part of wider mixed-methods projects. There are no studies that explicitly sought to understand this using qualitative methods and no clear qualitative or quantitative methods by which unintended behaviours, such as creaming or gaming, could be assessed. This is difficult to assess given the complexity pf public services delivery, for example, in health care, it is hard to assess the impact of incentives due to the difficulties in attributing individual efforts to a particular outcome for a patient receiving care from multiple teams or individuals, or to identify the potential for unintended behaviour that could be detrimental to team performance (Eijkenaar et al., 2013).

A number of studies examine about how teams respond to the introduction of incentives. The empirical evidence suggests that where cooperation in a team is viewed as important for overall organisational objectives, rewarding individual behaviour has the potential to detract from team performance because it raises the marginal cost of effort to cooperate. Conversely, team-based rewards can result in 'free riding' and regression to the mean for high performers. Reviews of the literature find that where tournament style incentives are introduced, there is the risk of disincentivising low performers and rewarding high performers for work they are already doing, unless relative improvements are targeted (Burgess and Ratto, 2003, Petersen et al., 2006).

There is evidence from studies of p4p schemes in the UK that non-incentivised aspects of performance are likely to change after the introduction of a p4p program. Evidence from one study of the QOF in primary care in the English NHS finds improvements in quality of care for incentivised tasks occurred at the expense of non-incentivised aspects of care (Doran et al., 2011). In one study, the QOF provides a natural experiment to test the impact of a p4p scheme on hospital admissions for ambulatory care sensitive conditions, defined as conditions where admissions can be prevented or reduced through high quality primary care. This study examines emergency admissions after the introduction of the QOF in England and finds a decrease among the incentivised conditions compared to those that were not subject to incentives. The authors suggest that the decrease was larger than expected and might be explained by unmeasured impacts on quality of care that were outside of the directly incentivised activities (Harrison et al., 2014). Some studies, by contrast find some evidence

that incentivised activities have positive spillover effects for non-incentivised activities for the targeted groups and there is no evidence of effort diversion. This suggests that QOF incentives induced providers to improve quality (Sutton et al., 2010). Another study finds that the introduction of the QOF is associated with a change in smoking behaviour, though it was not possible to know which intervention associated with the QOF induced this change (i.e., it could have been due to advice related to BMI, alcohol consumption or smoking cessation) (Fichera et al., 2016). Evidence from the QOF suggests that the non-incentivised aspects of performance suffered in some areas while there were positive spillovers in other areas after the introduction of the primary care p4p scheme.

The evidence is mixed about the effects on non-incentivised measures after the introduction of a p4p scheme in secondary care. The Advancing Quality (AQ) p4p scheme[6] in the northwest of England used a 'tournament' system[7] of incentives where only the top two quartiles of participants in a p4p scheme received bonuses. Rewards were paid to the hospital and then allocated to the clinical teams whose work earned the bonus and allocated to improving clinical care not personal income. AQ provided a natural experiment about a p4p scheme in one geographic area (24 hospitals in northwest England) and data from the rest of England served as a comparator. One study tests whether the incentives in the AQ scheme affected mortality and finds a 1.3% decrease in combined mortality in three of the five incentivised conditions. The authors note that a range of quality improvement strategies, new data collection systems and shared-learning events for participating staff accompanied the tournament scheme. These contextual factors are important because they may have muted the competitive aspects of the scheme, and may explain the apparent success of the p4p scheme (Sutton et al., 2012). A subsequent analysis of this data using different quantitative methods finds that that AQ scheme was associated with no significant reductions in mortality for incentivised conditions while there was a significant increase in mortality for non-incentivised conditions (Kreif et al., 2016). An extended analysis of the longer-term effects of AQ over an additional 24 months finds

[6] The AQ used a composite quality score based on 28 quality measures in five clinical areas to rank the 24 participating hospitals. At the end of the first year, the first and second quartile of performers received a financial bonus of 4% or 2% of their revenue paid to the hospital. In the next six months, additional bonuses were available for reaching a set threshold of performance and for top improvements on their performance in the first year (Sutton et al., 2012, Kreif et al., 2016).

[7] A 'tournament' incentive scheme is based on tournament theory, where a group of agents compete for a fixed set of prizes. For example, in a tournament scheme, there can be fixed performance rewards of £100 for the top performer, £50 for the runner up, and no rewards for the remaining participants. In such a scheme, the highest performers are rewarded while low performers receive no rewards. It is expected that agents will exert more effort to increase the chance that they will win the larger (e.g. a financial prize), or better (e.g. a promotion) prize. Unlike other p4p incentive schemes that are rewarded on absolute achievement or targets, in a tournament, the emphasis is on relative performance compared to others in the group (Prendergast, 1999).

that these reductions in mortality in the first 18 months were not maintained over the next 24 months, compared to the rest of the country. It is possible that this was a result of spillover effects; for example, this study finds that the largest reductions in mortality were for conditions also treated by specialists that were treating conditions linked to incentivised conditions (Kristensen et al., 2014). These findings are echoed in a systematic review about p4p in primary and hospital care that finds that non-incentivised aspects of performance were likely to suffer or fall after the introduction of a p4p program (Van Herck et al., 2010).

Limited evidence exists about the effect of p4p interventions on organisations and how they are related to unintended behaviours. These studies vary in scope and focus on unintended behaviours, but find a wide range of provider responses to performance targets and incentives that merit further consideration in relation to the use of outcomes-based rewards for public services. A study of the impact of the star rating system for hospital performance in England finds that the scheme used a combination of measurement and audit practices to gauge performance. This system of regulation by targets can lead to a myopic focus on targets, and indicates to hospitals that what is measured is more important than what is not (Bevan and Hood, 2006a). In a system characterised as one of 'targets and terror,' providers resorted to perverse behaviour to avoid sanctions for failure (Bevan and Hood, 2006b). A study from Tanzania finds that the introduction of a p4p scheme to improve antenatal care and increase the number of deliveries in hospital led to unintended behaviour. In this scheme, there was evidence that health care workers used coercive strategies, such as the threat of fines, to urge women to deliver in hospital (Chimhutu et al., 2014).

The evidence is mixed about the extent and prevalence of gaming or unintended behaviours in p4p schemes. A systematic review of the literature finds limited evidence of gaming with just three studies that specifically sought to measure gaming. This is attributed in part to limited contexts for comparison to prove gaming and the authors suggest that more research is needed to monitor unintended consequences (Van Herck et al., 2010). One study examines whether a change in performance related pay had an impact on GP behaviour in Scotland. It finds that lower-performing GPs improved significantly more than their high-performing counterparts. The authors suggest that performance-based incentive payments are effective in motivating health care providers that received the payment but the presence of incentives may have led GPs to manipulate patient records in ways that were hard to identify despite auditing (Feng et al., 2014). A mixed-methods study using administrative data and focus groups with providers and users finds no proof of parking or creaming but the authors strongly suggest that there was anecdotal evidence from the focus groups to indicate

it occurred (Rees et al., 2014). A mixed-methods study of a p4p scheme in Rwanda finds that gaming was regularly reported (e.g., not distributing the last box of a medicine to avoid a stock out) and that informants distorted information associated with the p4p incentives through the arbitrary or retrospective filling out of forms. Staff felt justified in doing so because they lacked the time to do everything properly and also suggested that the payers (here, the Rwandan government and multilateral funders) instigated the gaming process by setting an indicator as the basis for payment that was seen to be inappropriate, ambiguous, or not useful (Kalk et al., 2010).

A small number of studies used routine administrative data or large scale RCTs to assess the degree to which gaming or selection occurred. Two such studies from the UK examine the use of exception reporting in the QOF. The QOF rewarded providers for the number of eligible patients that reported receiving appropriate treatment, but practices were able to exclude patients from their denominators or numerators as not suitable for treatment. One study finds no evidence that there was purposeful exclusion of patients to game the p4p scheme (Doran et al., 2008) while another finds evidence of gaming through exception reporting (Gravelle et al., 2010). Another study examines a DWP work program that used a PbR payment scheme where payments were based on job outcome results for the long-term unemployed in the UK. This study explicitly sought to explore gaming in the PbR scheme for employment and found that 'creaming' and 'parking' were widespread and systematically embedded within the DWP's Work Programme, despite efforts to mitigate for this through different maximum possible payments for nine subgroups in the PbR scheme. These adverse behaviours were driven by a combination of intense cost pressures and ambitious performance targets (Carter and Whitworth, 2015). While these studies relied on quantitative data analysis, they are notable in that they explicitly sought to explore the 'black box' of outcomes based commissioning and ascertain whether gaming behaviours were occurring.

This section identifies a dearth of research about the use of outcomes-based contracts and the impact of p4p incentives in organisations, and few studies that examine the unintended consequences of behaviours. The evidence suggests that the assumption that direct or indirect financial or non-financial incentives deliver better services belies the evidence, that p4p is not a 'magic bullet' due to the complexity of public services delivery. This thesis is thus able to contribute to the gap in the literature about the impact of incentives in organisations and how they are communicated through organisations.

3.4. Impact of incentives on motivation

An objective of this study is to explore the impact of incentives on the intrinsic motivation of managers and front line staff. Intrinsic motivation is of interest to this thesis because p4p (and its variants) are often used as a policy mechanism to increase worker motivation through the introduction of individual, team-based, or workplace rewards for meeting pre-specified performance rewards. When service provision is contracted out to the non-profit sector, commissioners rely on non-profit providers to deliver the intervention, with the expectation that the organisation and its staff are highly motivated to do the right thing for their clients. From the service delivery perspective, these p4p-based initiatives are often reliant on the efforts of workers in the non-for profit or public sectors whose motivations are of interest to this thesis.

This literature review finds that the introduction of incentives could be met by both positive and negative behavioural responses by staff at the individual, team, and facility level. These findings suggest that crowding in or out can have both positive and negative implications for motivation depending on the design and implementation process of the p4p scheme (Lohmann et al., 2016). The empirical literature on the impact of p4p on intrinsic motivation is mixed with evidence of both 'crowding in' and the 'crowding out' of provider motivations and suggests that there is a continuum of motivation crowding behaviours that vary according to what was incentivised, the size of the reward, and how rewards are distributed between individuals, teams or facilities.

This review finds a small but growing body of literature about how the introduction of performance-based funding initiatives affects the intrinsic motivation of workers in the public or non-profit sector. These papers comprise a mixture of experimental economic or psychological laboratory experiments and field-based experiments from the education sector and health workers in Low-Middle Income Countries (LMICs). The lab-based experiments are of limited relevance to this thesis's focus on the impact of financial incentives on the motivation of workers in real life. There are a small number of studies from high-income settings that looks at workers in the public sector, such as the impact of p4p schemes on general practitioners in the UK, France and Spain (Berdud et al., 2016, Gené-Badia et al., 2007, Sicsic et al., 2012, McDonald et al., 2007, Allen et al., 2017), and the impact of incentives for public sector workers in the UK or in US local government (Burgess et al., 2010, Stazyk, 2013). A review of the impact of incentives in public services has argued that incentive programs add to intrinsic motivation but does not fully account for how the individual's intrinsic motivation affects her/his utility function in work (Karlsberg Schaffer et al., 2015). Most empirical evidence was published in the last three years and emanated from research conducted in LMICs, notably out of a

series of Performance-Based Financing or Results-Based Financing initiatives aimed at improving maternal health outcomes[8] (Bhatnagar and George, 2016). While there is some evidence from LMIC settings, this is of limited relevance as the study context differs substantially. The findings of these studies are presented here because they concern the implementation of outcomes or target-driven contracting and because of the very small number of studies specifically looking at the impact of p4p schemes on staff motivation.

These limitations further support the need for a qualitative approach to understanding intrinsic motivation and how, and in what ways, direct and indirect financial incentives may have crowded in or crowded out non-profits' staff's intrinsic motivation.

Most studies define motivation using Deci (1971) or Deci and Ryan's (1985) definition of Self-Determination Theory (SDT) (Deci, 1971, Deci and Ryan, 1985). A small number of studies situate their analysis in behavioural economics[9], described as a new field that challenges the simple view of economic behaviour in which price is the only tool available to incentivise economic agents (Berdud et al., 2016).

[8] In pursuit of the Millennium Development Goals to improve Maternal, Neonatal and Child Health (MNCH) by 2015, the World Bank (alongside other national development banks in Norway and Belgium, among others), funded a series of Performance-Based Financing (PBF), or Results-Based Financing (RBF) schemes aimed at improving MNCH indicators by increasing institutional deliveries, antenatal care and childhood vaccinations. The scheme was first introduced in Rwanda and soon followed by similar schemes in Tanzania, Burkina Faso, Nigeria and Afghanistan. There were also variants of these projects in Benin, Sierra Leone and Malawi. These were all robust field experiments using randomised design, extensive household surveys, validated patient experience surveys, and qualitative interviews with staff and users to assess how successful these PBF schemes were in improving worker experience and patient outcomes. These projects sought to ascertain the impact of the PBF schemes on health worker motivation and job satisfaction and so provided an extensive contribution of fourteen papers based on actual field experiments to this area of the literature.

[9] The field of behavioural economics is expanding rapidly to explore the potential impact of 'nudges' to shape and personalise policy interventions to incentivise actors to take up actions for their own benefit. This field is dominated by social psychology and economics and uses lab-based experiments to yield insights about how individuals make decisions or respond to incentives. This emerging field uses a mix of statistical methods and lab-based experiments to understand whether incentives can improve motivation (e.g. one study found that incentives can improve performance but higher reward thresholds can distract individuals from the task and result in a decrease in performance (Ariely et al., 2009)). This area of the literature is not explored because of its reliance on lab-based experiments while this study is about the impact of a highly powered financial incentives scheme on two non-profit providers delivering public services in a real life setting. It is worth noting that behavioural economics has the potential to develop insights about how best to structure or design an incentive scheme to mitigate the potential for perverse behaviour where output is hard to measure or individual incentives might be prohibitively costly to implement over an extended period of time. This may be relevant for future research about optimal design or the size of incentives.

There is no agreed measure for motivation across the empirical evidence. There is no established methodology for measuring or assessing intrinsic motivation. Several studies have developed their own measures (Lohmann et al., 2017, Borghi et al., 2017); draw on Franco et al.'s (2002) motivational outcomes framework (Franco et al., 2002, Bhatnagar and George, 2016); have job satisfaction as a proxy for motivation (Allen et al., 2017); or rely on a contextualised 'Dictator' game, an economic game[10] to develop a proxy for participant's motivation (Ashraf et al., 2014). There are no established quantitative or qualitative methodologies for the assessment or measurement of intrinsic motivation in the literature.

Some evidence reveals that the introduction of direct and indirect financial incentives had a positive effect on workers and 'crowded in' their motivation to perform their work. This 'crowding in' of intrinsic motivation is found in several studies from LMICs that looked at the impact of incentives on health workers. There is evidence that incentives 'awakened' or increased staff's motivation (Bhatnagar and George, 2016, Kalk et al., 2010, Paul et al., 2014); encouraged mission-matching between staff and the organisation (Serra et al., 2011); or staff were more excited to come to work following the introduction of incentives (Bhatnagar and George, 2016, Kalk et al., 2010). There is evidence that p4p schemes improved organisational behaviour, team working and cohesion due to team-based rewards (Kalk et al., 2010, Bhatnagar and George, 2016, Paul et al., 2014). Staff responded positively to both salary bonuses and facility funding (Bhatnagar and George, 2016, Kalk et al., 2010, Shen et al., 2017). Staff reported that the incentives increased the degree of supervision received in a positive way, by providing greater responsibility or clarity over roles and professional expectations due to the introduction of clear performance indicators and a quality score checklist for staff (Bertone et al., 2016); greater autonomy from local government in that staff were able to buy drugs or fund repairs in the health clinic as needed with p4p funds, rather than applying for approval through local government (Bhatnagar and George, 2016) and encouraged professional goal-setting or enabled greater autonomy (Gené-Badia et al., 2007). One study finds that the p4p scheme

[10] A contextualised 'dictator' game is a tool in economics and social psychology to test how much money a research participant is willing to share with another. This study examined a public health initiative in Zambia where hairdressers and barbers received training about HIV prevention and agreed to sell condoms in their shops. At the training, a contextualised dictator game was used to develop a proxy for agent's willingness to donate to a charity providing HIV/AIDs care in Zambia. The hairdressers and barbers received a payment for attending the training and were told that there was an additional payment (<25% of the fee for attending) that they could keep or donate to a local charity providing care to HIV/AIDs patients. The amount donated was used as a proxy for agent's motivation to the cause and used in conjunction with asset- and socio-economic status measures in analysis because willingness to donate might have been correlated with wealth. The donation in the experimental game predicted sales and reassured authors that social pressure to donate did not mask actual differences in motivations.

introduced a feedback loop that informed managers about front line staff needs that was seen to make them more supportive of staff (Kalk et al., 2010). Other studies find a reduction in reports of adverse behaviour among staff enrolled in the p4p schemes, such as decreased absenteeism and attrition (Paul et al., 2014, Kalk et al., 2010, Shen et al., 2017). There is evidence of a potentially positive impact of incentives for public sector workers such as variable pay where motivation or altruism is low, such as in the UK Treasury among workers in tax collection or in US local government (Burgess et al., 2010, Stazyk, 2013).

There is evidence that non-financial incentives can 'crowd in' motivation. For example, a field experiment where hairstylists in Zambia were recruited to educate clients about condom use contrasts the impact on motivation of four groups receiving higher and lower financial incentives, non-financial incentives of a poster with stamps for sales made and a control group that received no rewards. This study finds that non-financial incentives were more effective at eliciting effort from participants to sell condoms to their clients. Agents offered non-financial rewards exerted more effort than those offered the higher or lower financial incentives (a 90% or 10% commission on suggested retail price). The authors find that the non-financial incentives succeeded in eliciting greater effort by leveraging the agents' pro social motivation by facilitating social comparisons among agents because the non-financial incentive's visual rewards (a poster with stars for sales achieved) were clearly visible to third parties (Ashraf et al., 2014). A qualitative study from Spain about physician attitudes towards financial incentives finds that doctors wanted more autonomy and preferred that future incentive schemes use non-financial rewards, such as investing in aspects that fostered intrinsic motivation, such as staff development or training, as being more effective than monetary incentives (Berdud et al., 2016).

There is evidence that the financial incentives in some p4p schemes 'crowded out' intrinsic motivation over the course of the p4p intervention. There is also evidence that, for a smaller subset of staff in the studies cited above, they 'crowded out' intrinsic motivation. While staff were largely positive about the impact of incentives on their motivations, some staff reported that the introduction of monitoring and evaluation demands could detract from time spent with service users, held the potential to introduce ethical 'conflicts,' or could have a negative impact on work-life balance (Bhatnagar and George, 2016). There is evidence from one qualitative study that crowding out could occur following the imposition of incentives among doctors in Spain. This study finds that the incentives had the potential to change the nature of their work. For example, doctors reported seeing patients out of hours as something they would do to alleviate waiting time pressures for the

public good, but it could be transformed into a task they only did in return for financial compensation after the introduction of incentives (Berdud et al., 2016). In Tanzania, the introduction of incentives led to tensions between hospital units that received financial rewards and those that did not, and could erode motivation for those that did not receive rewards (Chimhutu et al., 2016, Chimhutu et al., 2014). In some cases, the evidence finds that design and implementation issues contribute to the 'crowding out' of intrinsic motivation. One study from Zambia reveals that remuneration alone could not adequately address two causes of demotivation: high workload and low staffing levels (Shen et al., 2017). In another study from Nigeria, motivation was crowded out among staff that felt that the p4p scheme had targeted rewards too strongly at medical doctors rather than other health workers (Bhatnagar and George, 2016). The empirical studies described above were set in low-middle income countries so were of limited relevance to the case studies but were included in this review because of the dearth of studies on motivation among public and non-profit workers.

There are also mixed findings about motivation from studies that found incentives had little or no impact. One study in Sierra Leone reported mixed results on the potential of performance bonuses to the facility as both a motivator and de-motivator for the staff and team (Bertone et al., 2016). Several studies set in LMICs find no evidence that p4p increased motivation when job satisfaction is used as a proxy for motivation (Anselmi et al., 2017, Engineer et al., 2016, Shen et al., 2017). In one study of individual-level p4p rewards for maternal, neonatal and child health in Tanzania, this may have been due to the limited sample size of the health survey or invalid measurement of underlying motivation construct (job satisfaction as proxy), however, it is also possible that staff responded to incentives by changing their behaviour without experiencing greater job satisfaction (Anselmi et al., 2017). Another study finds that job satisfaction is unrelated to the rate of p4p exposure in the UK QOF scheme (Allen et al., 2017). An ethnographic study from the UK's QOF finds that there was no impact on doctor motivation while nurses were concerned about the impact of greater surveillance on their internal motivation (McDonald et al., 2007). This is echoed by a study among doctors and nurses in Spain (Gené-Badia et al., 2007). A study about US public servants finds low evidence of a crowding out effect on public service motivation and job satisfaction (Stazyk, 2013).

The literature on the impact of incentives on individuals' motivation features a number of laboratory based experiments from the economics and psychology literature that challenge the assumption that incentives improve motivation. One study conducts a number of lab experiments in India and among students at US universities that provided subjects with different levels of incentives to examine whether an increase in contingent pay led to an improvement or decline in performance. It finds that

high incentives can increase motivation but beyond some threshold level, it appears that raising incentives can increase motivation to supra-optimal levels and distract from the task itself, described as 'choking under pressure,' and result in a decrease in performance (Ariely et al., 2009). One study uses lab-based real effort experiments to test the effect of different remuneration schemes in a multi-tasking environment among physicians. It finds that there was heterogeneity in behaviour, with intrinsically motivated being least sensitive to financial incentives, defined here as those motivated to work well and achieve high quality outputs in the absence of an form of incentive) (Lagarde and Blaauw, 2017). These studies challenge the assumption that incentives positively affect motivation and improve performance in all circumstances with all subjects.

This review of the empirical literature about motivation has identified a gap in the literature about the impact of p4p on the intrinsic motivation of workers delivering public services in the public and non-profit sectors. Given that workers in the public and voluntary sectors are assumed to be intrinsically motivated and serve multiple principals, there is the potential that financial incentives erode motivation by incentivising actions previously done at no cost, for reasons such as personal satisfaction, job fulfillment, or career concern. This review finds that little is known about how workers in the non-profit or public sectors in high income countries respond to incentives and the impact that this has on their intrinsic motivation.

3.5. Conclusion

This chapter provides an overview of the evidence about the potential benefits and drawbacks of introducing p4p to non-profit organisations delivering public services to demonstrate that the introduction of external rewards to non-profits necessitates careful examination as they have the potential to change the principal-agent relationship and erode intrinsic motivation. This is of interest from both a research and policy perspective because non-profit organisations and the third sector are being pressed to diversify their revenue streams through large service provision contracts, or to raise income through outcomes-based contracts. The introduction of indirect financial incentives (i.e. no financial rewards for staff delivering the SIB intervention) necessitates further examination of the impact that p4p contracts will have on the behaviour of workers in non-profit organisations. SIBs and outcomes-based contracts were developed to ameliorate the shortcomings of p4p by focusing on long-term outcomes rather than intermediate measures of performance. There remain questions as to whether these mechanisms improved service quality or led to efficiency gains or improved outcomes. Moreover, there remain unanswered questions as to whether the incentives posed by

these schemes leads to adverse behaviour, unintended consequences or erode staff motivation. This thesis seeks to address these questions.

4. Methods

4.1. Introduction

This chapter discusses how the study design was developed to address the aims and objectives of this study. It discusses the potential limitations of the research design, fieldwork, and where applicable, how these shortcomings are mitigated. This chapter describes the selection of the comparative case study approach and the implications of this study design choice. This chapter opens by setting out the study design, process for securing access to the case studies, the methods for gathering data, the data analysis process, and details of ethical approval. This chapter closes by critically reflecting on the methods used and how my role as a researcher may have impacted the data collection process and analysis of research findings.

4.2. The research questions

The aim of this study, as explained in Chapter 1, is to examine the impact of incentives on non-profit organisations, specifically how incentives affect organisational behaviours and the motivation of staff members. The introduction of direct financial incentives for each case study organisation and indirect financial incentives for its front line workers necessitates further examination about the impact of p4p contracts on the behaviour of workers in non-profit organisations. This project will address the research question: *"How do workers in non-profit organisations respond to the use of direct and indirect outcome-related financial incentives?"*

This research focuses on the impact of the incentives generated under two different SIB contracts on organisational, team, and staff behaviour at the managerial and front-line level. This research addresses these objectives through comparative case studies in two non-profits delivering services through a SIB with the same outcomes goals.

The objectives of this thesis are:

1. To understand how new financial incentives are articulated and prioritised within a non-profit organisation's management and how this affects the way that the organisation plans and delivers services.
2. To understand how senior and team managers respond to extrinsic incentives and the impact that these have on staff structure, task allocation, service delivery, performance management and monitoring outcomes.

3. To understand how team managers and front line staff perceive incentives and outcome-related rewards driven by the SIB, and how this affects their attitudes toward outcome targets.
4. To understand the impact that incentives have on the intrinsic motivation of team managers and front line staff.

4.3. Comparative case study approach

The research was conducted using a case study approach. This was selected as the most suitable form of research strategy for its ability to explore and learn from events and situations in real life. Case studies have been used across many academic disciplines as a research strategy for increasing understanding because they can be used to explain, and draw out learnings from, real life situations (Fraser and Mays, 2018).

The case study approach is considered a comprehensive research strategy that includes the logic of design, techniques for data collection and specific approaches for data analysis that enable the investigator to conduct an empirical inquiry that "investigates a contemporary phenomenon within its real-life context" (Yin, 2013 p.8). This method allows for the use of a mix of qualitative and quantitative methods, which was of especial importance where an investigator relies on multiple sources of evidence, to ask "how" or "why" questions, when they have little to no control over a contemporary set of events they are studying (Yin, 2013). An advantage of the case study approach is that they allow the researcher to examine real life situations, and in the process of doing so, to test preconceptions and early assumptions about their research. This process of learning from proximity to real-life situations allows the researcher to draw out more discoveries and analytical insights through extensive analysis of a small group than is possible through the statistical analysis of large groups (Flyvbjerg, 2006).

A comparative case study approach was selected as the research design to generate insights about the impact of different approaches to implementing a SIB on two organisations (hereafter referred to as Provider A and Provider B). The comparative approach allowed me to seek out and contextualise emerging patterns in how staff responded to the extrinsic rewards created by the SIB at a larger scale. The two projects were suitable for comparative research on the impact of p4p contracts on non-profit organisations because the two organisations were working with the same target population and faced the same outcomes (albeit with different contractual arrangements and at different payment tariffs, which will be described at length in Chapter 5, Study Setting), but varied in how they operationalised

the SIBs. The comparative case study approach allowed me to examine how non-profit organisations respond to the introduction of direct financial incentives for the organisation to repay SIB investors, and on the impact of indirect financial incentives for provider behaviour.

4.4. Selection of case studies

The selection of the case studies was determined by the Department of Health's (known as the Department of Health and Social Care (DHSC) from 2018) Evaluation of the SIB Trailblazers in Health and Social Care through which this thesis was funded (described below in Section 4.4.1. Link to concurrent evaluation).

One provider received a grant from the Social Enterprise Investment Fund (SEIF) and the Department of Health (now DHSC) in 2012 to fund the development of a SIB Trailblazer in Health and Social Care. This provider was required to take part in an ongoing Policy Innovation Research Unit (PIRU) evaluation examining the impact of the SIB as a funding mechanism for public services in health and social care. A second provider was identified as an ideal candidate for comparative research with one of the Trailblazer initiatives, since the contractual arrangements of the two SIB models differed (in that one used a Special Purpose Vehicle[11] (SPV) to isolate the risk to the organisation while the other was a direct p4p contract with the commissioner, these differences are detailed in Chapter 5, Section 5.3.1. Contractual structures). Both initiatives used the same outcome metrics (reduction in rough sleeping, move to settled accommodation, reconnection to home country, employment or training, and reduction in unplanned A&E admissions). The second provider agreed to take part in the PIRU evaluation about the impact of the new financing mechanism and to contribute to this thesis about how the organisation operated and responded to the outcomes-based contract.

4.4.1. Link to concurrent evaluation

This thesis contributed a stand-alone component to a larger project, An Evaluation of Social Impact Bonds in Health and Social Care, led by Prof. Nicholas Mays and Dr. Mylene Lagarde, funded through PIRU at the London School of Hygiene and Tropical Medicine (LSHTM). I was a named co-investigator for the second phase of this project (2016-2017) and contributed to the research design of the extended evaluation. I led the data collection and was responsible for the analysis of all data from the

[11] In a SIB contract, a Special Purpose Vehicle (SPV) is a subsidiary company or entity that is established for the acquisition and financing of the SIB intervention. SPVs are used to deliver the project without putting the larger organisation at risk in the event of failure. The SPV can also receive investments and make outcome payments (Fraser et al.2018b).

comparative case studies presented in this thesis. This evaluation followed nine 'Trailblazer' projects that received funds from the Department of Health's SEIF in 2013 to explore the potential applications of SIBs in health and social care, to assess whether the SIB funding mechanism facilitated better outcomes than other forms of financing, and at what cost. In the first phase of this project (January 2014-December 2015), the evaluation focused on the early development and negotiation processes associated with finalizing a SIB contract. This phase of the research consisted of interviews with commissioners, managers and investors involved in the nine Trailblazer projects. In the second phase of the project (January 2016-June 2017), the evaluation looked at the five Trailblazers that proceeded to the operational stage. This component of the evaluation looked at SIB implementation and the experiences of the first group(s) of SIB intervention recipients, and wherever it was possible, a comparable counterfactual group to understand if, and how, SIBs facilitated better outcomes than other forms of financing and at what cost (where data were available). The main research questions guiding that research are distinct from those used in this thesis.

4.4.2. Contribution of the candidate to this thesis

One of the nine Trailblazer projects was selected for inclusion in this thesis. It was identified in early 2014 as suitable for a distinct research degree project. My research questions are distinct from the broader DHSC-funded evaluation that examined whether SIBs, as a financing mechanism, delivered better outcomes than more conventional types of financing, at what cost and why. Instead, this thesis aims to understand how the introduction of new outcome-related incentives affected staff in non-profit organisations. To ensure that all findings from the proposed project were independent of the wider research team's work, I was responsible for all data collection in this study site from the outset, led all fieldwork in the site, and conducted all subsequent analyses related to the interview and contractual data generated from this site.

This research project ran in conjunction with a DHSC-funded Evaluation of Social Impact Bonds in Health and Social care. All costs were covered by this research project, as data were collected during fieldwork that directly contributed to Objective 3 of that research project, which was to qualitatively understand the impact of introducing SIB funding on service providers.

4.5. Securing access to the case studies

As detailed above, one provider was a DHSC SIB 'Trailblazer' and so was required to take part in the ongoing PIRU evaluation examining the impact of the SIB as a funding mechanism for public services in health and social care. In May of 2015, the second provider team agreed to take part in the

evaluation about the impact of the new financing mechanism and this PhD research on how the organisation operated and responded to the outcomes-based contract. All interviewees in Providers A and B were made aware that the interview data would be used for both the PIRU evaluation and this PhD research.

4.6. Timeframe of research

The interviews were held in conjunction with the concurrent evaluation of nine SIB 'Trailblazers' in Health and Social Care in England. The data presented in this thesis were drawn from a larger, concurrent project launched in January 2014. Fieldwork for this project commenced at the midpoint of the intervention in June 2014. This enabled the collection of interview data over the last 18 months of the intervention with the senior leadership team, middle and team managers, front line staff, and where applicable, volunteers with the SIBs in both organisations. The fieldwork was conducted in three waves with managers and front line staff from July to September 2015, June to October of 2016, and September to October of 2017. See Table 4.1. in the following section for details of interviews held as part of this research.

4.7. Research methods

The methodology in this research project can be summarised in the following ways:

This research is suited to qualitative methods because this study is concerned with peering inside the 'black box' of two outcomes-based p4p contracts where all financial rewards accrued to the organisation. Quantitative studies draw on existing datasets or collect data that is predefined and categorised as variables to test hypotheses about the research questions. These methods are intended to draw out 'statistical generalisations' about population groups. By contrast, qualitative studies enable the researcher to explore flexible data generation methods in terms of sampling and determining what appropriate units for analysis will be. Qualitative research seeks richness and nuance to understand and shed light on the experiences of interview subjects rather than seeing divergent or different accounts as issues that require standardisation (Mason, 2006, Fraser and Mays, 2018).

Qualitative methods have been described as a particularly useful tool for economics when applied to complex issues such as financial incentives. For example, in health economics, they allow the researcher to obtain information that contributes to the development of economic models and theory that reflect the complexity of the health economy informed by the views and preferences of

individuals in that economy (Coast and Jackson, 2017). This research draws on economic theory about agency, incentives and motivation to inform an analysis about the impact of a complex financing arrangement throughout an organisational hierarchy that accounts for the views and experiences of individuals within the case studies.

The literature review reveals a gap in the empirical evidence about how direct and indirect financial incentives are interpreted and communicated through organisations from senior to team managers and to front line staff members tasked with service delivery. There are a small number of quantitative studies of the impact of incentives in the private and public sectors but these schemes involved individual-level performance based financial rewards (Bandiera et al., 2005, Bandiera et al., 2007, Burgess et al., 2010). This thesis contributes to this gap in the literature through a case study approach that enables a comparison of the impact of indirect financial incentives on two organisations. Qualitative methods can offer a strategy to understand 'how' and 'why' questions about real life circumstances, for example why interventions differ in one setting from another (Fraser and Mays, 2018, Yin, 2013). The qualitative approach allows for the collection of data that can be used to increase and inform understandings about the how and why of social phenomena (Pope et al., 2006, Mays and Pope, 2006).

The qualitative research methods enabled the collection of rich staff accounts about their experiences of working in complex public services. Qualitative interviews with individuals enable the use of 'why' questions to gain information and understanding about past events with informants that cannot be obtained through methods involving observation (Owen-Smith and Coast, 2017). These nuanced accounts allowed for a comparison of provider behaviour throughout the organisational hierarchy in the context of indirect incentives (where the staff had not stood to benefit financially from the financial incentives placed on the organisations they worked for). This also enables an understanding of the impact of incentives on staff behaviour, responses to managerial instructions, and their own motivations.

The rest of this section describes the methods used to gather data relating to the contractual documents and interviews in the case studies.

4.7.1. Contractual documents

The comparative case study approach enabled the use of documentary analysis (e.g. contractual documents) and interview data. The comparative approach to analysis allows me to draw out the similarities and differences in organisational behaviour and to try to understand the effects of

different contexts. The use of two sites helps to minimise chance associations in the analysis process as the project findings are based on a wider range of data (Eisenhardt, 1989).

To understand the allocation of risk between parties, and the incentives embedded in the SIB contract, it was important to view the contractual documents related to the SIB sites. With the support of the Department of Health (now DHSC), formal letters were sent to the lead commissioner and providers in both sites that explained how a central research objective of the evaluation was to describe and characterise the signed SIB contracts in order to unpack the implications for the different parties. See Appendix 1 for the letter. On behalf of the research team, I liaised with the commissioner and providers to obtain the relevant contracts. I assured all parties that the disclosed contracts and documents were treated with the strictest regard for confidentiality and anonymity and that all findings were subject to an internal quality assurance processes prior to any dissemination of any findings.

The following documents were obtained in regard to the SIB in Provider A: i) the commissioner to provider contract, ii) the investor to provider contract, ii) the investor to provider loan agreements. For the SIB in Provider B, the commissioner to SPV contract was also obtained. It proved impossible to obtain any documents associated with the loan agreements, set up of the SPV and its legal obligations or any investor to provider contracts. There was substantial organisational flux within Provider B's senior leadership team and it proved impossible, despite many attempts, to contact successive finance directors to obtain the contractual documents. During this time, a senior director made every effort over several months to find the contractual documents but was only able to locate the commissioner to SPV document. After this attempt failed, I was referred to the members of the finance department and the bids department to find the contracts. Ultimately this attempt proved impossible and staff speculated that the files had either been lost due to staff turnover or destroyed in the move to a new office.

4.7.2. Interviews

Semi-structured interviews

In qualitative research interviews[12], the researcher takes on a role that can be analogous to a driver,

[12] Research interviews can be categorised in three ways: structured, semi-structured, and in-depth. Owen-Smith and Coast (2017) identify semi-structured and in-depth as being qualitative in approach. Structured interviews are described as being restricted in nature, such as the use of a formal questionnaire or survey that seeks to address specific hypotheses (Owen-Smith and Coast, 2017, DiCicco-Bloom and Crabtree, 2006).

where they are responsible for the direction of the conversation and for steering it back on course as needed. They are held with individuals who have more information about the topic because it relates to their life experiences when compared to the researcher (Owen-Smith and Coast, 2017). Semi-structured interviews tend to be scheduled in advance at a specific time with specific, pre-determined questions that can include questions that emerge through the dialogue with informants (DiCicco-Bloom and Crabtree, 2006). Semi-structured interviews allow the interviewer to take a directive approach using topic guide prompts that relate to specific research questions. This enables some comparability between interviews (Owen-Smith and Coast, 2017). All interviews followed the topic guide which was informed by the framework for analysis and research questions guiding this study. The topic guide was loosely structured so that there was the opportunity to follow issues of interest as required with informants. See Appendix 2 for the interview topic guide.

Recruitment

Fieldwork in Provider A comprised interviews (18 interviews with 15 individuals) with two members of the senior leadership team, a middle manager, three team managers, seven front line staff and two team volunteers held between June 2015-February 2016. Fieldwork in Provider B (15 interviews with 11 individuals) comprised interviews with one member of the senior leadership team, two team managers, and eight front line staff members. See Table 4.1. for details of interviews with study subjects at the close of fieldwork. The interviews with front line workers included those subcontracted from partner organisations.

Sampling

I purposively sampled informants to include viewpoints from staff at all levels of the organisational hierarchy in both service providers. This enabled the collection of a wide range of opinions from the managerial level from both managers and front line staff. Interviews were held with members of the senior leadership, middle and team management, front line staff, administrators and volunteers.

The data collection was determined by the evaluation's timeframe for fieldwork and ethical approval. The fieldwork began in the Summer of 2014, at which point the SIBs had been operational for 18 months so it was not possible to collect data over the life of the SIBs. Instead, qualitative interviews were held with all staff working in both SIBs sites at regular intervals over the remaining 18 months of the contract period, with follow up interviews held again toward the end of the fourth year. In total, I interviewed most staff involved with the SIB in both organisations. This included senior management staff at both organisations (3), all managerial staff involved in the development and administration of

the SIBs (6), most front-line staff (7 of 8 potential interviewees at Provider A and 8 of 11 potential interviews at Provider B) and all volunteers (2) involved in the two organisations.

Every effort was made to contact staff who were no longer in their original roles with the organisation. This was successful with former front-line staff who were happy to speak over the phone or in person as they were still engaged in the same sector or in similar work (e.g. those who had since been promoted or sought other opportunities at similar organisations). Of the five front-line staff members that were not interviewed, two were living abroad, two relocated within the country, and one returned to education. While any additional interviews may have been helpful, they were not required to validate emerging patterns in the data and in reaching data saturation.

It proved more difficult to contact senior leadership team members who had since left the organisation in Provider B. For example, the Chief Executive and Finance Director in Provider B were not available to speak as they had since retired. There was organisational flux within Provider B's senior leadership team and it was impossible, despite many attempts, to contact successive finance directors. Despite these challenges, there were several reasons to be confident in the findings: first, the senior leadership representative interviewed had spearheaded the decision to bid for the SIB and oversaw all staffing and service delivery decisions; and second, there were no changes in the SIB's management during the intervention so there was consistency in the narrative presented to the interviewer by informants in this provider.

Table 4.1 Interviews with study subjects at close of data collection period

Roles	Number of interviews
Provider A	
Senior and middle managers	5
Team managers	3
Front line staff	8
Volunteers	2
Total	18
Provider B	
Senior and middle managers	1
Middle managers	4
Front line staff	10
Total	15
Total interviews in A and B	33

Approach to consent

Interviews were held with managers and staff at the two case study providers. All staff were presented with an information sheet and consent form about this project (see Appendices 3 and 4 for participant information sheet and consent form). Interview participants were assured of anonymity about any information shared. All participants were told that they could withdraw from the study at any time without specifying why. Interviews were held in their workplace so any risks to the individual were minimised.

4.8. Analysis of data

Analysis of contract data

The contracts between the public commissioner and service provider were used to inform my understanding of the risks and incentives embedded in the SIB contracts. The contracts were analysed with attention to the relationships between the different parties involved in the SIB contract and to the allocation of risk between the different parties. The findings were discussed and interrogated with my supervisor. This enabled a fuller understanding of the specific risks and benefits that each organisation faced to understand the potential implications that any differences in contractual structure may, or may not, have had for the implementation and delivery of the SIB for each organisation.

The findings from the contract analyses in Chapter 5, Section 5.3.1. were shared with key stakeholders in the SIB contracts to validate the analysis and to ensure accuracy in my interpretation of the contracts.

Analysis of interview data

Interviews were transcribed and data was analysed using NVivo 10 (QSR International, 2012). The interview data was analysed thematically. First level coding was based on the themes from this project's research questions, interview topic guide (see Appendix 2 for the interview topic guide), and key issues in the framework for analysis presented in Chapter 2 that drew on the theoretical literature about SIBs, intrinsic motivation, p4p, and non-profit organisations and their behaviours. This was intended to account for what was explicable and for unexpected new themes that emerged in the data. I discussed initial emerging themes with my supervisor, advisory board members and wider SIB evaluation research team to assist in the identification of main themes and sub-themes for analysis. Throughout the data analysis process, I was careful to reflect on and refine the main themes and sub-themes for analysis to ensure they were representative of the information found in the data. The positive and negative findings about provider behaviour, such as reported instances of unintended behaviours or gaming, were scrutinised with my supervisor, advisory board members, and the wider SIB evaluation research team to qualify my findings. I sought out deviant cases in the analysis to find data that contradicted my interpretation and explanation of the data. This process did not result in odd data that caused me to reconsider my findings. This process did challenge and enable me to incorporate the data about unintended behaviours and gaming into a more refined synthesis of the research findings, as it related to provider behaviour and motivations (Pope et al., 2006). The findings were organised thematically based on how they corresponded to the themes highlighted in the framework for analysis.

4.9. Ethical approval

The fieldwork for this research project was conducted as part of an ongoing contribution to the Evaluation of Social Impact Bonds in Health and Social Care. Ethical approval to undertake that study was granted by the research ethics committee of the London School of Hygiene & Tropical Medicine (LSHTM ethics reference 7227, 18 February 2014).

4.10. Comments on methods used

It is necessary to reflect on the role of reflexivity throughout the research process to consider how the researcher's own prior experiences and assumptions can influence a study (Pope et al., 2006, Mays and Pope, 2006). This section considers the potential influences of my experiences on this study with attention to epistemology and ontology and issues of triangulation, validity and replicability. It then briefly discusses alternate theoretical approaches. This section closes with a reflection on my previous work experiences and training in other academic disciplines.

Ontology is defined as the nature of reality (Lincoln, 1992). Epistemology concerns the theory and nature of knowledge, specifically the relationship between the researcher and what is known (Lincoln, 1992). This is an area that has received little attention in (health) economics because the nature of the discipline assumes that there is a universally shared view of reality (Coast and Jackson, 2017) because explanatory research in this field is often made within the orthodox neoclassical framework (Coast, 1999). This view assumes that there is a single knowable reality, and that research can help to expand what is known about this reality. The economist assumes that predictions, based on inferences and deductive processes can be tested and therefore become the basis for explanations. The focus on testing hypotheses to eliminate biases is expected to shed light on how a single reality works (Coast and Jackson, 2017). This view of the world has the potential to be reductive and neglects an engagement with how the world of human behaviour is understood and experienced. Qualitative methods are more appropriate for this study because it enables the collection of intra-organisational data to develop a rich understanding about how individuals respond to the introduction of direct and indirect financial incentives in an actual real life situation. The use of qualitative methods in economic analysis enables a researcher to capture contextual information about individual's preferences and views that influence their behaviours and motivations and forms the basis of explanation.

The comparative case studies may be seen to limit the generalisability of these findings but a strength of this research is that it sought to develop a rich account of the experiences of two non-profit organisations with direct and indirect financial incentives. It is also important to note that this research gained analytical generalisability using the insights from the theoretical literature. This is consistent with recent methodological work that argues qualitative methods are particularly useful when applied to complex issues such as financial incentives. This is because they allow the researcher to obtain information that contributes to the development of economic models and theory that reflects the complexity of the economy, informed by the views and preferences of individuals in that

economy (Coast and Jackson, 2017). Further, this has the potential to mitigate criticisms of economics as a discipline that provides models and theories for debate but ultimately fails to account for, or understand, actual human behaviour (Hunter, 1993).

A key issue in qualitative research is the triangulation of data, whereby the researcher looks for patterns to develop or corroborate their interpretation of the data. This is a useful analytical tool to compare the data from two different sources (such as interviews with the same group at different sites) to encourage a more reflexive analysis of the data (Pope et al., 2006). In this study, triangulation enabled comparisons of the findings between groups in the two sites (i.e. comparing data from team managers in Provider A with their counterparts in Provider B) to seek similarities and differences where they occurred. Where the accounts diverged, this enabled me to question my assumptions about the divergent accounts. While there is some controversy about this as methodological tool when used to test the truth or validity of the data (Pope et al., 2006), in this study, triangulation was a helpful tool to reinforce the themes that emerged from the analysis of the interview data.

As a single researcher, it is important to be reflexive about the interpretation and explanations developed from the case studies. There are several reasons to be confident about the findings of this research:

First, there have been multiple stages at which the findings of this thesis were interrogated by my supervisor. Where both case studies are concerned, the findings have been discussed with my supervisor who challenged me to evidence my claims and develop detailed accounts of the observations being reported in this thesis. Second, the findings in this thesis have been presented in part in the final report of the wider PIRU evaluation of five operational SIBs in Health and Social Care (Fraser et al., 2018a). This includes the contractual analysis for one provider and a short section about provider behaviour. The thematic findings in the report were interrogated by the wider evaluation team over the course of several 'away days' during the analysis process to triangulate the findings across that study's five case studies with the intent of developing generalisable findings across all the sites. Positive and negative findings, particularly as they related to instances of unintended behaviours and moral dilemmas, were held to high levels of scrutiny. These findings were investigated during a full day workshop with the project team to qualify our findings. In doing so it became possible to incorporate what appeared to be divergent findings into a more refined synthesis of the research findings for the final report and my thesis (Pope et al., 2006). The final report was

finalised in summer of 2017 and underwent formal peer review by the UK DHSC and the Centre for Social Impact Bonds at the DCMS. This provided an additional test of the external validity of these findings. The final report was published in July of 2018 (Fraser et al., 2018a).

Second, a comparison of the research findings with other concurrent published work about the SIBs that form these case studies (Edmiston and Nicholls, 2018, Cooper et al., 2016) indicated that my observations were consistent with other academic researchers. It should be noted that these research findings disagree with findings from a government-commissioned evaluation by the DCLG that concluded that there was no evidence of perverse incentives. The DCLG's qualitative evaluation did not separate the two case studies or seek to draw out differences in organisational or managerial approaches to the incentive scheme (Mason et al., 2017) which may offer some explanation for this. This did provide some concerns as to whether I placed too much attention on negative cases. To mitigate this, as detailed above, deviant cases were examined to challenge my explanation of the data and discussed with my supervisor, advisory board members, and the SIB evaluation research team (Pope et al., 2006).

These are reasons to be confident in the findings of this research. This research project is qualitative and draws on 'real life' accounts of the impact of incentives on non-profit organisations in two case studies that were specific to a particular context. A detailed account of the methods used has been provided to allow the reader to consider whether efforts have been made to ensure that these findings are valid. To an extent, it would be possible for this study to be replicated on a wider scale with more operational SIB contracts. There have been several other SIBs commissioned using similar outcomes targets as these case studies so it would be possible for another researcher to conduct the study and thereby expand the power of these findings. There are some caveats to any replication of this study, particularly that it has been extremely rare to see SIB contracts structured like those in Providers A and B, which are entirely p4p contracts where the investors were repaid on a quarterly basis regardless of outcomes-related payments received from commissioners. These SIBs are atypical because the investors bore no risk of success or failure[13]. Further, the case studies operated as proof

[13] In a 'typical' SIB, public commissioners repay investors for their upfront investment into the service if, and only if, the intervention achieves predetermined outcomes. The case studies differed from this 'ideal type' because Providers A and B chose to obtain funds via commercial loans from private and social investors to finance the SIB services, so the only revenue stream available to the providers with which to repay their investors was through quarterly outcomes payments from commissioners. As a result, Providers A and B had a 100% p4p relationship between the commissioner and service providers. Further details about the contractual structure of these SIBs are set out in Chapter 5 (Study setting).

of concept pilots so it was possible that there were unique temporal aspects to the implementation and operationalisation of these sites that might not be captured in subsequent work.

There are two related areas of theory that were considered but did not ultimately influence the study design. First, the contractual analysis did not draw on the literature about contracting and transactions cost economics. The wider literature on public sector contracting is relevant for academics interested in understanding the benefits and disadvantages of SIBs as an outcomes-based contracting mechanism. However, this topic was outside the direct remit of this study and its focus on understanding the impact of financial incentives on provider behaviour and motivation. Second, this research did not draw on the field of behavioural economics, a field that is dominated by social psychology and economics, which uses laboratory-based experiments to yield insights about how individuals make decisions or respond to incentives. Behavioural economics has the potential to develop insights about how best to structure or design an incentive scheme to mitigate the potential for perverse behaviour where output is hard to measure. This area of the literature was not explored because the methods associated with this field were not relevant to this study, which sought to examine the impact of an actual, real life situation on individuals, not to coerce them to behave in particular ways.

It is also important to critically reflect on the experiences that informed my work as a researcher. First, my previous career was in a non-profit organisation (in a different country setting focused on international development projects) that later divided itself into two entities, the non-profit and a social enterprise. I was part of this organisation for several years during period of rapid growth and expansion while the senior leadership sought to balance their pro-social motivations and 'core values' with the need to generate income to subsidise and expand the non-profit's work. This experience informed my interest in understanding what the impact of managerial decisions at the senior and middle management level were on front line staff – particularly to explore whether front line staff were aware of the wider organisational changes that were occurring and how those were communicated through the organisation. This 'real life' experience was in an organisation whose aims and goals were different than the case studies in scope and target population. I was conscious that there might be common organisational experiences from the non-profit sector and took care to ensure that I challenged my preconceptions of working in a non-profit with mixed missions. As the settings were very different from the non-profit case studies, who worked with homeless individuals in a high-income setting, I did not believe my previous experiences were relevant to my interviewees. In a few cases (ranging from interviews with front line staff and senior managers), I revealed that I had

previously worked in the non-profit sector and these experiences did allow me to build a rapport with informants, often about resource scarcity in the sector and the reluctance of non-profit staff to adopt performance management and data monitoring practices. I was guarded against revealing details of my own experiences with organisation level incentives so that staff were led to be less forthcoming or were guided in their responses in any way.

Second, my previous academic training and research experience are worth noting. My first degree was in Anthropology and International Development Studies, which entailed training in ethnography and macroeconomic theory as it related to Development Economics. This provided a unique perspective and respect for the detailed, immersive qualitative work required through ethnography that prizes 'thick description' and the cultural reflexivity associated with Anthropology alongside knowledge about the advantages of economics, as it relates to quantitative methods that enable hypothesis testing and developing models through which to understand real world problems. In my role as a Research Fellow in the Policy Innovation Research Unit at the LSHTM, I have gained qualitative research and analysis experience as part of the research team in multiple evaluations.

5. Study setting

5.1. Introduction

This chapter describes the rationale for the introduction of SIBs in the two case studies and examines the service design and contractual structures that underpinned these interventions. The two SIB contracts merit examination because of their potential impact on service providers. The focus of this thesis is to understand how workers in non-profit organisations responded to the use of direct and indirect outcome-related financial incentives. It is important to set out how, and what risks, were transferred between different actors to understand the incentives that were established by the SIB contracts. This chapter provides an analysis of the contractual structure of each SIB and the financial and reputational risks embedded within each study site. This is followed by a summary of the overall performance of the two SIB providers towards their outcome targets to set out the degree to which each provider met or missed its stated goals. This chapter closes with a descriptive overview of the case studies with attention to their position in the sector, operational budgets, funding streams, and approach to staff recruitment and team structure.

5.2. Background

5.2.1. Social Impact Bonds

The case studies were both SIB contracts, a variant of p4p using outcomes-based contracts that draws on private and social investment to provide upfront capital to fund service delivery where commissioners only pay if predetermined outcomes are achieved so investors risk losing their full investment if outcome targets are missed. SIBs have been welcomed because they present a novel financing mechanism where investors provide upfront funds to service providers to scale up or pilot an innovative or high-cost intervention that is expected to bring substantial cost savings to commissioners. Within a SIB, investors are only repaid for their investment by commissioners, if the project is successful at meeting its predetermined outcomes. SIBs purport to shift the risk of unsuccessful services away from public commissioners to investors who then bear the financial risk of failure.

This study focuses on the impact of these SIB contracts in two non-profit organisations delivering the SIB service. Each of these sites will be referred to as Provider A and Provider B. The two providers differed from the 'typical' SIB model described above because the service providers bore the full financial risk of failure. Although the interventions were categorised as SIB contracts because the public commissioner wanted to commission outcomes-based SIB contracts targeted at rough

sleeping, both providers then chose to obtain funds via commercial loans from private and social investors to finance the SIB services[14]. In these SIB contracts, the investors provided loans at the outset to fund the service interventions. The investors were repaid for these loans on a quarterly basis, with a fixed interest rate, irrespective of the outcomes-related payments that Providers A and B received from commissioners. The only revenue stream available to the providers with which to repay their investors was through quarterly outcomes payments from commissioners, resulting in a 100% p4p relationship between the commissioner and service providers in Providers A and B. Thus, the providers, not the investors, assumed the whole financial risk of failure.

Providers in SIB contracts are often performance managed by an intermediary who is responsible for data monitoring and troubleshooting when outcomes are not met. This is intended to provide an additional level of accountability and professional management support for service providers. Providers A and B differed in that all performance management and data collection were done in-house so there was no oversight or direct management embedded in the service delivery contract, or in the form of commissioner-driven process targets, such as in the form of an external auditor or performance and contract manager. Given the atypical contractual models in the two case studies described above, closer examination is necessary to understand how risk was allocated between different parties in the SIB contract and to understand how the financial incentives created by the SIB impacted workers in the two non-profit provider organisations (Providers A and B).

5.2.2. Social Impact Bonds for homelessness

The two rough sleeping SIB projects that are the focus of this thesis were initiated to improve outcomes for homeless individuals in London using an outcomes-focused approach intended to promote a move into settled accommodation and more stable lifestyles. This section discusses how SIBs were developed to target rough sleeping and the homeless population in London, as described in the policy documents and grey literature developed in response to the policy problem, and provides context as to why this financing mechanism was selected.

[14] In a SIB contract, the public commissioner enters an outcomes-based contract with the service provider or a Special Purpose Vehicle (SPV), a subsidiary entity that could be used to deliver the project without putting the larger organisation at risk in the event of failure. The service provider, SPV, intermediary, or investment manager is then responsible for securing upfront funding for service delivery and the terms of repayment. The public commissioner is not involved in this process. SIB contracts take many forms but these case studies were defined as SIBs because they were outcomes-based contracts with the commissioner where funds came from other, non-public or state sources.

In the late 2000s, there were repeated increases in the numbers of individuals seen rough sleeping in London, with an increase in people seen sleeping rough of 8% from 2009 to 2010 (3,673 in 2009 to 3,975 in 2010). This occurred alongside a rise in 'hidden' homelessness (i.e. individuals not seen sleeping rough on the street but who lacked stable accommodation). At the local authority level, these increases in reported rough sleeping were accompanied by increased demand for services related to homelessness, such as early interventions for new rough sleepers and homelessness assessments. This presented a policy problem for local authorities, as rough sleeping was associated with increased numbers of complaints regarding anti-social behaviour, and the higher costs associated with a growing, entrenched, homeless population, such as increased demand and costs for chaotic interactions with A&E or entry into the criminal justice system. In the longer term, rough sleepers were expected to require more costly interventions and intensive support for societal reintegration as their exposure to street lifestyles increased (The Young Foundation, 2011).

At the practical level, there was a lack of coordination and accountability among the local authorities and service providers that worked in London's 32 boroughs. There were reported tensions at the local authority level between doing what was right, and what was politically possible, given that providing excellent homelessness services was neither a political priority, nor something that individual boroughs wanted to be known for in an era of austerity. Homelessness services were also characterised by a high degree of fragmentation, with services operated by the private, public, and voluntary sector working in silo. For the homeless population itself, there were administrative obstacles to accessing services, for example, an individual had to demonstrate a local connection (e.g. previous work, or having lived, in the area for a set period of time) in the borough to be eligible for assistance. In this patchwork of services and accountabilities, the SIB was intended to act as a London-wide initiative that provided ring-fenced funding for rough sleeping services (The Young Foundation, 2011, Social Finance and The Young Foundation, 2012).

The Department for Communities and Local Government (DCLG) was interested in SIBs as a way of financing preventive services to mitigate the impact of entrenched rough sleeping through a pan-London approach. To tackle the issues highlighted above, the DCLG commissioned the Young Foundation and Social Finance (an intermediary with specialist SIB and public services reform knowledge) to design an intervention targeted at rough sleeping in London. Through interviews with staff at service providers and London Boroughs, this report identified a number of policy, service and delivery gaps that prevented homeless individuals in London from securing accommodation or accessing mental health or substance abuse support services. For example, it was difficult to provide

spot purchases or financial support for homeless individuals without drawing on social welfare benefits (policy gap), there was insufficient housing available for individuals leaving prison (service gap), and inconsistent tenancy support for those that were housed by the borough (delivery gap). This work recommended that an individualised approach had the potential to enable better access to existing services for a group of entrenched rough sleepers in London. As a direct result of this work, a SIB was proposed as a mechanism to provide personalised services to move entrenched rough sleepers into stable accommodation (Social Finance and The Young Foundation, 2012, The Young Foundation, 2011). The DCLG committed to providing central government funding for outcomes payments and worked with the Greater London Authority (GLA) to commission two SIBs targeted at a defined group of entrenched rough sleepers in London. The GLA, as the lead commissioner for homelessness services in London, commissioned two SIBs to reduce rough sleeping among a group of 830 entrenched rough sleepers (divided into two groups of 415 individuals) in London in 2012. The GLA acted as lead commissioner and contracts manager throughout the duration of the interventions. Two registered UK charities were selected to deliver the SIBs to the two fixed groups after a competitive bidding process. Investors were recruited separately by the provider organisations and not part of the competitive bidding process or consultation with the GLA[15] (Mason et al., 2017, Mason et al., 2015, Tan et al., 2015).

5.2.3. Housing as a mechanism to improve homelessness and health

There are two dominant approaches to the reintegration of homeless people into society - the 'Staircase' model and the 'Housing First' approach. In both, individuals are placed into sheltered accommodation, which is expected to create greater stability for the individual as a first step, so that other health issues, such as mental health or substance abuse problems can then be addressed. In the staircase model, people are referred into temporary accommodation, such as hostels, then to treatment for substance abuse or other health issues, after which individuals are referred into permanent housing, often in the private rented sector, when deemed appropriate (The Young Foundation, 2011). In a Housing First model, homeless individuals are placed into stable accommodation and asked to accept a low level of case-worker support. Their tenancies are not subject to restrictions related to their mental health or substance abuse issues, e.g. there tend not to be sobriety restrictions or a requirement that individuals enter, or complete treatment for substance abuse issues as a condition of their continued tenancy. The Housing First approach originated in

[15] This approach differs from a 'typical' SIB where the intermediary or investment managers first negotiate an outcomes-based contract with the public commissioner, and second, select providers through a competitive bidding process.

America and the approach has since been applied in other countries, with notable success in Finland, among other European countries (Bretherton and Pleace, 2015). The staircase model is the dominant approach for the majority of rough sleepers in London with the exception of those that have taken part in policy experiments, such as the SIB intervention and other pilot projects (e.g. the RS205 scheme that targeted London's most entrenched group of homeless individuals through a combination of personal budgets, outreach workers, housing support, along with support from medical and enforcement staff) (The Young Foundation, 2011).

The Housing First model was recommended as one possible approach for the London SIBs, alongside the staircase model (Young Foundation 2011). This approach is supported by existing evidence that Housing First had been successful, albeit with a small pilot group of 13 individuals, in Camden, a borough in North London (Pleace and Bretherton, 2013). There is also evidence from an evaluation of nine Housing First initiatives initiated from 2009 to 2014 across England that found that most service users (78%) were housed through the intervention. Similar to the Camden pilot, the nine initiatives in this study worked with small groups of fewer than 15 individuals. Despite the limitations of generalising based on pilots with small numbers, the authors suggest that the Housing First approach has the potential to be a more cost-effective approach than conventionally-funded services for entrenched homelessness (Bretherton and Pleace, 2015). In practice, the SIBs were not strict Housing First approaches. Instead, they drew on the principles of the approach with clients, such as placing no restrictions on individuals' tenancies related to substance abuse or employment. However, the commissioner did not pay for outcomes in respect of individuals that were placed in hostels, so there was a distinct disadvantage for workers who approached the group using a staircase model, as it would take considerably more time, and therefore, increase financial risk to the non-profit organisation, to secure permanent housing for their group.

There is some evidence that Housing First approaches are a promising intervention to improve health. An evaluation of nine Housing First initiatives in England reports that users felt they improved their physical and mental health and reduced their drug and alcohol usage, based on users' self-reported consumption. While there was considerable variation between users, the evaluation found that there was no evidence that drug or alcohol use or anti-social behaviour increased after joining the scheme (Bretherton and Pleace, 2015). Other evidence in support of Housing First and improved health is mixed. Two comprehensive systematic reviews find considerable variations in the quality of the studies available and heterogeneity among the groups studied so it is not possible to draw generalisable conclusions about how best to improve the health of homeless populations. Hwang et

al.(2005) report that findings were mixed for homeless people with mental illness, substance abuse issues, and concurrent mental illness and substance abuse. There is not a clear link between a move to accommodation and improved health, but it was positive and cost-effective when individuals were homeless for short periods of time (Hwang et al., 2005). Frederick-Lewis et al.(2011) provide a follow-up systematic review to Hwang et al.(2005) that assesses the evidence on interventions targeted at those with mental health and/or substance abuse issues. One study finds that the provision of housing was an effective intervention for homeless individuals with substance abuse problems, and abstinence-contingent housing was even more effective. Another study finds that access to accommodation improved survival rates and adherence to antiretroviral drugs among those with HIV/AIDS. Fitzpatrick-Lewis et al.(2011) suggest that provision of housing is associated with decreased levels of substance abuse, relapse from periods of substance abstinence, health services utilisation, and increased housing tenure. As with Hwang et al.(2005), case management is seen as an effective tool to improve health outcomes when integrated, supportive and well matched for homeless individuals (Fitzpatrick-Lewis et al., 2011). Overall, there is evidence that the Housing First approach has the potential to enable health improvements and the socio-economic integration of homeless people (Fitzpatrick-Lewis et al., 2011, Hwang et al., 2005, Culhane et al., 2002, John and Law, 2011, Larimer et al., 2009, Bretherton and Pleace, 2015).

5.3. Study sites

This thesis explores the impact of financial incentives on two registered UK charities that were non-profit organisations delivering outcomes-based SIB contracts to understand how the incentives affect intra-organisational behaviour and the motivation of staff members. This section describes the two case studies (Provider A and B) and explores the implications of the SIB contracts to set out the direct financial incentives for Providers A and B. It then describes how the two non-profits performed in relation to the direct financial incentives. This provides important contextual information to identify the potential implications of over- or under-performance against targets for organisational strategy and for provider behaviours.

Organisational background

The two case study providers differ substantially in scale. Provider B is one of London's largest homelessness charities, providing a broad range of outreach and temporary accommodation services across Greater London. The senior managers felt that their organisation had a strong reputation in the sector and that they were well positioned to experiment with a new financing mechanism, as the

organisation's capacity to deliver services would not suffer reputational harm in the case of low performance. Provider A is a smaller charity that specialises in transitions to supported housing and housing services in London. For Provider A, this SIB contract was important for the organisation as it was their largest ever contract with the GLA. This contract was therefore of strategic value to the organisation's growth, and in raising its profile within the sector. See Table 5.1 for descriptive information about the scale and goals of each provider.

Table 5.1 Organisational characteristics of Providers A and B based on 2015 financial reports[16]

Characteristics	Provider A	Provider B
Established	1980s	1970s
Geographical range	London	London; and elsewhere in England
Staff	<500 staff members, <100 volunteers	>1000 staff members, <1000 volunteers
Total income (approximate £ year ending March 2015)	£10 million	£70 million
Annual deficit/surplus (2014-15 financial year)	£-400,000 (deficit)	£800,000 (surplus)
Potential SIB revenue if all outcomes met	£2.1 million	£2.4 million

The 2015 annual reports of each organisation (in the last financial year that the SIBs were operational in both sites) provided details about the operational budget and staff numbers of each organisation. At the time, Provider B employed four times more staff than Provider A. Provider B's 2015 annual income was seven times larger than Provider A. For provider A, the SIB contract could have generated approximately £2.1 million pounds over the course of the intervention, a sizable amount for an organisation with an annual budget of £10 million pounds. On the other hand, Provider B's contract had the potential to generate more revenue[17] at £2.4 million pounds but this was much smaller in proportion to its total annual revenue of £70 million pounds.

[16] All dates and figures have been rounded in order to provide anonymity for each provider.

[17] The difference in potential SIB revenue is due to the competitive tendering process that the public commissioner used to award the contracts. The public commissioner provided maximum tariff levels that they were willing to pay for each outcome and invited the providers to set their own tariff for each outcome. This will be discussed in more detail in Section 5.3.2 (SIB outcomes). SIB contracts were awarded based through a competitive tender process.

Target population

The client group (n=830)[18] was identified as any individuals seen sleeping rough more than six times from July to September of 2012, based on routinely collected data from the Combined Homeless and Information Network (CHAIN), an independent database funded by the GLA with information since 2000 on all rough sleepers in London (Tan et al., 2015). The client group was divided evenly between the two providers in Westminster (the Central London Borough that accounts for much of London's homeless population) with the remainder of the boroughs assigned to each provider by the commissioner so that each provider was responsible for half of the 830 individuals identified as eligible for the SIB intervention. The projects began in November 2012 for a period of three years (ending in October 2015), with the last possible outcomes payments for two of the three accommodation outcomes in a payment tail available until October of 2016. The payment tail was intended to ensure that clients that entered accommodation in the last year of the SIB or had been in sustained accommodation for 12 months in October of 2015 continued to receive support to maintain their tenancies (see Section 5.3.2 for a description of the outcome targets, definition of outcomes, and Section 5.3.3 for actual versus target performance in each case study).

5.3.1. Contractual structures

This thesis is about the impact of an outcomes-based payment contract on two non-profits in the homelessness sector. Unlike services commissioned through conventional financing, or other SIB contracts seen in operation (Fraser et al., 2018a), these case studies are both unique in two respects. First, the investors bore no financial risk; and second, there was no oversight or direct management embedded in the service delivery contract, or in the form of commissioner-driven process targets, such as an external auditor or performance and contract manager. All data monitoring and performance measurement for each provider was conducted in house. While the outcomes-based contracts were categorised as SIBs because of the outcomes-based contract between the commissioner and the service providers, it must be noted that these SIB contracts were highly unusual.

The SIBs were 100% p4p contracts between the service providers (Providers A and B) and the public commissioner. The investors received quarterly repayments with fixed interest (where just one investor in Provider A also received a very small percentage of the outcomes-related payment for one

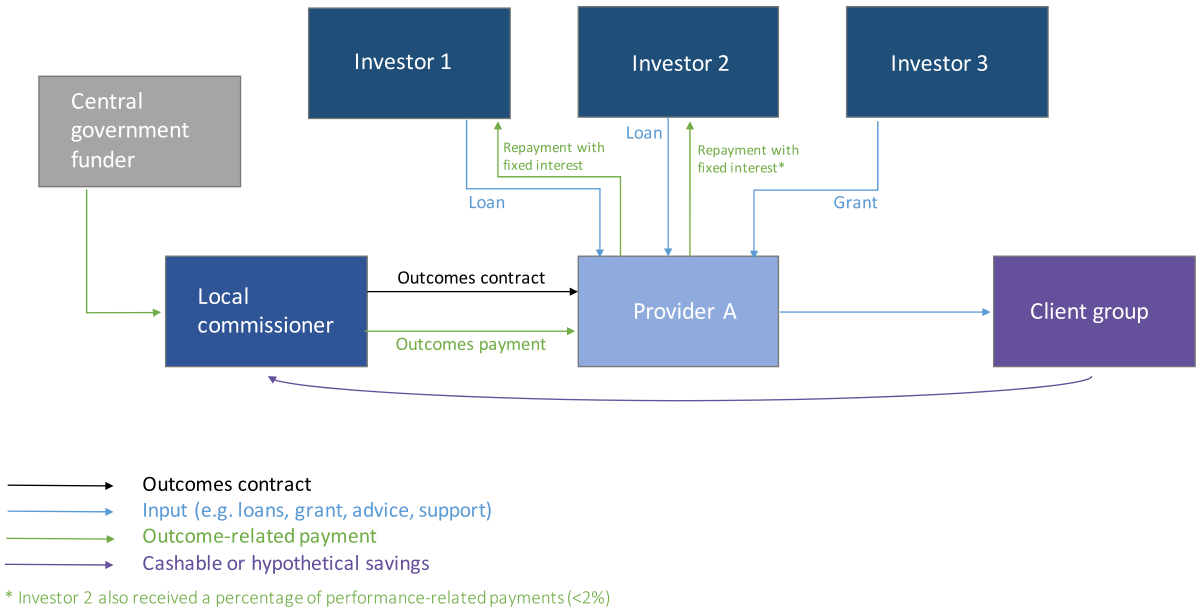
[18] There were originally 831 individuals across the two SIBs but this figure was later revised to 830 individuals after the CHAIN data revealed that one person had duplicated records (Mason et al., 2017)

of the five outcomes). Due to the 100% p4p SIB structure, it was possible that the Providers could accrue surpluses if the outcomes-related payments for service delivery were higher than their loan repayments with interest and their costs for running the intervention. It is not possible to determine the potential surpluses that each provider may have accrued because the costs associated with SIB delivery for each service provider were not made available, such as staff salaries or overhead expenses to run the service intervention. The filed accounts available on Companies House for Provider B's SPV for the year ending 31 March 2017 (to account for the last outcomes-related payments received through the payment tail in October of 2016) show that no surplus was made and there was a small deficit. There is no such information available for Provider A because they did not use an SPV, so no data is available on Companies House. Provider A's annual reports during the years of the SIB intervention do not provide further detail because the costs for running the SIB are not distinct from the costs of running the non-profit as a whole. It is not possible to report whether Provider A or B made surpluses or losses based on the information available.

Provider A: Contract background

Provider A was one of two registered UK charities selected to deliver the SIBs to one of two groups identified through the CHAIN database after a competitive bidding process. Investors were recruited separately by the provider organisations and were not part of the competitive bidding process or consultation with the GLA. In this site, the investors provided the initial cash flow to the providers so that they could start delivering services to obtain performance-related payments from the public commissioner.

Figure 5.1 Provider A model



Incentives and risk sharing for investors

To provide cash flow at the outset of the SIB, Investor 1 provided an unsecured loan of £250,000; Investor 2 provided £250,000 (as secured loan facility), and Provider A reported a contribution of £250,000 from its own reserves. Investor 3 provided a grant of £100,000 that was not subject to repayment. Investors 1 and 2 provided funds directly to Provider A and were repaid on a quarterly basis with fixed interest rates (4%) with repayments commencing within the first year of operations, making this a fixed repayment that was not contingent on performance. Unlike under a conventionally funded SIB, provided the provider organisation did not default on its loans and become financially insolvent, investors did not assume any degree of risk in this site. If the project had failed, they only lost their investment if the provider organisation had became insolvent. Investor 2 also received a percentage (less than 2% of the primary outcome related to a reduction in rough sleeping) of performance-related payments from commissioners, despite shouldering no risk of failure. In addition to its loan repayments with interest, Investor 2 had the potential to share in the

outcomes payments received from the GLA. The public commissioner was not involved in the provider's decision to share a proportion of the performance-related payments with the investor.

Incentives and risk sharing for provider

Provider A assumed financial risk in the case of low performance. Provider A chose to use a direct provider model to minimise the transaction costs associated with establishing a SIB contract. They felt they lacked the financial resources necessary to cover the legal fees associated with establishing an SPV, a subsidiary entity that could be used to deliver the project without putting the larger organisation at risk in the event of failure. Provider A matched the funds from Investors 1 and 2 from its own reserves. The provider was at risk because it had to pay quarterly repayments with 4% interest to Investors 1 and 2. This financial arrangement increased the financial burden as Provider A itself was liable for the general loans it received from investors 1 and 2, while sharing a percentage of performance related payments with Investor 2. There was no provider risk associated with the funds from Investor 3, as they were grant funds that did not have to be repaid. Investor 2's funds allowed it to hold non-voting observer status on the charity's board of directors. In this model, the provider assumed all the financial risk, so if it failed to generate revenue, it would therefore be unable to repay the loan with interest from its operational reserves. This also meant that if Provider A succeeded in meeting the goals set out in their financial forecasting model (not disclosed to this researcher as described above in the beginning of Section 5.3.1.), it was possible that Provider A could gain surpluses (See Section 5.3.3. Provider performance for further details about the implications of the contractual structure and actual payments received) from outcomes payments after repaying the commercial loan to put toward other organisational programming or priorities.

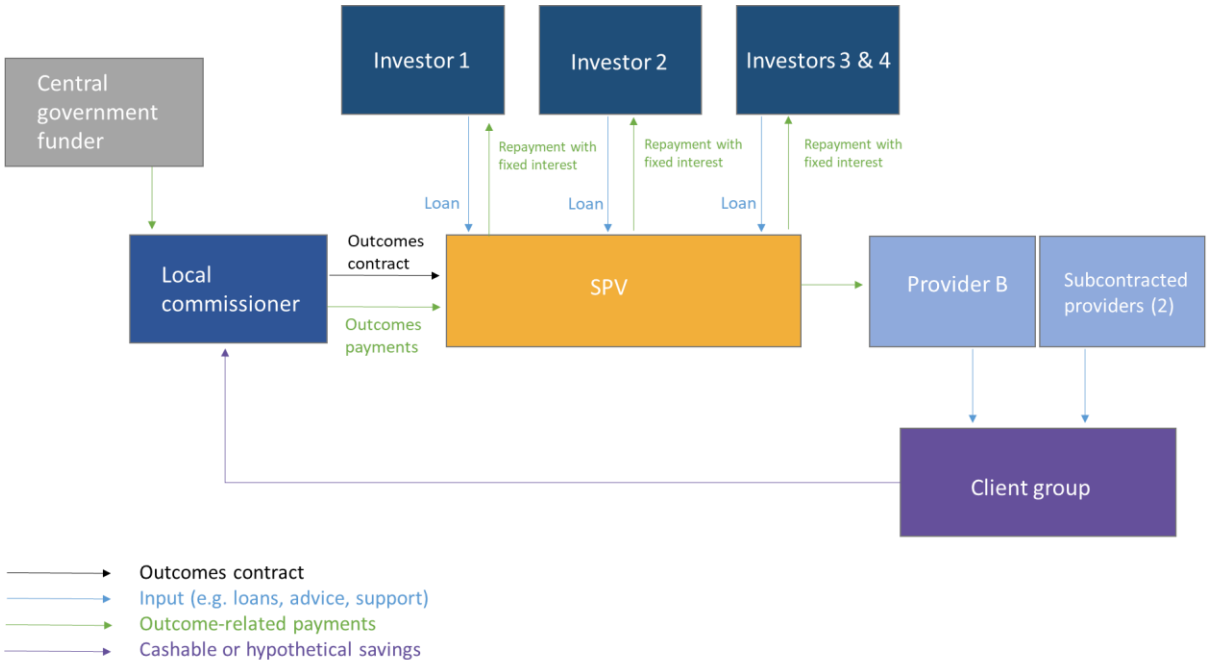
See the end of this section (page 84) for an overview of the incentives and risk sharing arrangements for the SIB commissioners in Providers A and B.

Provider B: Contract background

Provider B was one of two registered UK charities selected to deliver the SIBs to one of two groups identified through the CHAIN database after a competitive bidding process. Provider B hired an intermediary to manage the SIB development process. This included legal advice, establishing an SPV, and finding investors for the SIB. This intermediary was not involved in any capacity once the SIB was operational. Investors were recruited separately by the intermediary and were not part of the competitive bidding process or consultation with the GLA. The SPV subcontracted Provider B as the main delivery partner and two other non-profit organisations that provided drop-in services in Central

London to aid with service delivery. See Figure 5.2 below for a diagram of the contractual relationships in Provider B's SIB.

Figure 5.2 Provider B model



Incentives and risk sharing for investors

To fund the SIB, investors 1 and 2 provided loans of £307,692 and £80,000 and two private investors (hereafter Investors 3 & 4) contributed £12,308. Provider B contributed £200,000 from its own reserves. Of the £650,000 raised, only £400,000 was drawn down. Investors provided funds to the SPV. They were repaid on a quarterly basis with fixed interest rates of 6.5% on a quarterly basis. Repayments were not based on outcomes achievement, so unlike under a conventionally funded SIB, provided the SPV did not default on its loans and become financially insolvent, investors did not assume a high degree of risk if the project failed.

Incentives and risk sharing for provider

In this SIB with a SPV model, the provider carried the majority of the financial risk, although the investors' money was still at risk if the project underperformed to the extent that the SPV became insolvent. Provider B assumed direct financial risks of low performance, because its £200,000 investment was invested on a first loss basis, i.e. that the investors would be repaid first so their capital investment was only at risk after Provider B's investment. The SPV isolated the wider organisation from financial risk. However, if successful, Provider B could gain substantial surpluses from outcomes payments after repaying the commercial loans. These funds would be reserved for further use with the SIB group and could not be redistributed to Provider B's wider organisation. The

two subcontracted providers each received block funding for one staff member on an annual basis, for their services. There were no explicit financial incentives for the subcontracted providers as they received block contracts so did not share the financial risk of low performance.

Incentives and risk sharing for the commissioner

In both Providers A and B, the commissioner was only required to issue payments based on quarterly outcomes achievement as reported by the provider. Outcomes payments were funded by central government so the local commissioner bore no financial risk. These quarterly reports were audited by a program officer at the local commissioner. If the provider did not report outcomes, the commissioner did not provide any money, so shared no financial risk for low performance.

5.3.2. SIB outcomes

The public commissioner set the same five outcomes for both providers. Table 5.2 provides details of the SIB outcomes, how they were defined, and the proportion of total funding available for each.

Table 5.2 Details of SIB outcomes

Outcome	Definition	How many times payments can be claimed	Proportion of allocated funding
Primary outcomes			
1. Reduction in bedded down sightings	Service providers receive an outcome payment for each individual not seen bedded down during that quarter[1] above a baseline[2]	Quarterly	25%
2. Accommodation			40%
i. Enter accommodation	Client enters accommodation	One time.	
ii. 12 months sustained accommodation	Client remains in an eligible settled accommodation for 12 months	Not specified	
iii. 18 months sustained accommodation	Client remains in an eligible settled accommodation for 18 months	Not specified	
3. Repatriation	Client voluntarily moves to a destination outside the UK, e.g. country of origin. The provider can also claim outcomes if involved in cases where enforcement action was taken by the UK Border Agency (UKBA).	Not specified	
i. Repatriation to country of origin			
ii. 6 months sustained repatriation	The client remains out of the country for 6 months after repatriation	Not specified	25%
Secondary outcomes			
Supporting employment, education or training	National Vocational Qualification (NVQ) level 2 or equivalent qualification, volunteering, self-employment, part time or full time employment (for 13 weeks or 26 weeks)	Maximum of 1 time per outcome sub-metric	5%
Improved health	A reduction in A&E episodes associated with the cohort compared to a baseline.	Not specified	5%

[1] This applied to any bedded down sighting, so outcome payments were only made for clients not seen rough sleeping (i.e. if clients were seen bedded down just once, or every night, in the quarter, they were ineligible for payments)

[2] The historic baseline figure was based on CHAIN data for historic cohorts generated with the same criteria. The baseline figure was based on the adjusted historic performance for the first four quarters after cohort generation, which was averaged to produce an average yearly figure for quarterly use.

See Appendix 5 for a full description of the outcomes, outcome-related metrics, criteria for eligibility and the supporting evidence needed to verify each outcomes payment.

Outcomes-related payments

SIB contracts were awarded through a competitive tender process where the public commissioner provided maximum tariffs that they were willing to pay for each outcome. The actual tariffs from each SIB contract are not reported in this thesis at the request of both providers for reasons of commercial confidentiality. Providers were invited to set their own tariff for each outcome up to the maximum tariff value. For example, if the public commissioner set a maximum tariff of £200 for one outcome, Provider A's bid could have offered £150 while Provider B offered £120. Due to this competitive bidding process, the contractual analysis revealed that the two providers received different payment amounts that varied by 10-20% for almost all outcomes. This is an important distinction between the two providers and affected how services were delivered, cash flows and potential returns. The public commissioner set a maximum of £17,200 in outcomes payments per individual during the contract (in addition to limits on the number of times specific outcomes were payable).

Implications of outcomes-related payments and contractual structure

There are three important implications of the differences in outcomes-related payments and the contractual structure.

First, Provider A's SIB contract did not have an SPV so any outcomes payments received from the commissioner flowed to the organisation itself. The outcomes payments were pooled into the organisation's overall revenue, and then allocated to different areas of the non-profit's fixed costs such as property and salaries, and through to different project teams, plus other organisational priorities (as determined by the senior leadership team). The senior leadership team decided that outcomes payments generated by the SIBs were not ring-fenced for the SIB team's operating costs or to be put toward personalisation budgets (e.g. for spot purchases or financial support) for the client group. There was no SIB project-specific oversight board distinct from the organisation to manage or oversee how funds raised by the SIB were then spent. If successful, the SIB had the potential to generate a significant amount of money in the first year that could be allocated throughout the organisation. If the SIB failed to generate enough income to cover the provider's running costs,

including the cost of loan repayments with interest, the wider organisation was liable to cover the shortfall from other initiatives or revenue sources.

Second, Provider B's SIB contract had an SPV so the outcomes payments did not flow directly into the wider organisation's budgets. These funds and any surpluses generated from performance-related payments were ring-fenced for the running costs of the SIB intervention, such as staff costs, personalisation budgets, and sub-contracts to other provider organisations. There was a separate oversight board for the SPV that was distinct from the non-profit's governance board. In the case that Provider B had a surplus, it was not decided (during the time fieldwork was conducted) what would happen to residual funds generated from outcomes payments and paid into, and held by, the SPV for the wider non-profit organisation after repayments to investors and overhead costs. In the case of poor performance, the wider organisation would not have been legally liable to cover the shortfall from other initiatives. It is not possible to report whether Provider A or B made surpluses or losses based on the information available (See Section 5.3.1. for further details)

Third, the contracts revealed the outcomes targets in each provider's business plan for the SIB, so provided an indication of the predicted cash flows for each organisation by quarter. This provided important insights as to the approach each provider took to service delivery, with Provider A being more ambitious in the first year, while Provider B expected to receive more outcomes-related payments in the second and third years, except for the 12 months of sustained accommodation target in Year 3 when Provider A was more ambitious. Table 5.3 shows the outcomes where one provider was more ambitious than the other and where they were the same. The actual targets associated with each outcome are not reported in this thesis at the request of both providers for reasons of commercial confidentiality.

Table 5.3 Different thresholds of outcomes achievement in study sites for primary outcomes

Outcomes	Year 1	Year 2	Year 3
Outcome 1			
Reduction in rough sleeping	Provider A more ambitious	Provider B more ambitious	
Outcome 2			
Entry to accommodation	Provider A more ambitious	Provider B more ambitious	
12 months sustained accommodation	n/a	Provider B more ambitious	Provider A more ambitious
18 months sustained accommodation	n/a	Provider B more ambitious	
Outcome 3			
Initial repatriation	Site A more ambitious		Both providers set the same targets
6 months sustained repatriation	Site A more ambitious		Both providers set the same targets

5.3.3. Provider performance

This section sets out the degree to which Providers A and B met, missed, or exceeded their projected outcomes-related earnings over the three years of the SIBs. The preceding sections have established that Providers A and B were in 100% p4p contracts with the public commissioners. Both sites assumed the financial risk if their interventions failed to generate enough outcomes-related payments on a quarterly basis to meet the scheduled repayments of the loans from the investors. The providers differed in that they set out different outcomes-related targets for service delivery with Provider A being more ambitious about the number of outcomes-related payments it wished to obtain in the first year than in the following years while Provider B intended to receive the bulk of its outcomes payments in years 2 and 3. The following figures and tables illustrate how each provider performed relative to its projected incomes. This had implications for service delivery and the numbers of staff in place over the course of the intervention (to be discussed in Section 5.3.4).

These figures and tables are based on the average of the tariffs set by Providers A and B for each outcome (drawn from the contractual analysis) to respect the request for commercial confidentiality by the two provider organisations. The figures are grouped by year of the intervention. The targeted and actual performance figures (represented in percentages only) are drawn from the DCLG evaluation's final report (Mason et al., 2017).

Primary outcomes

Outcome 1: Reduction in rough sleeping

The first outcome-related payment was linked to the number of times individuals in the client group were seen 'bedded down' sleeping outside[19]. This outcome comprised a quarter of all possible payments related to the SIB (See Table 5.2. for the proportion of allocated funding related to each outcome). The provider received a payment for each individual that was not seen sleeping rough below a baseline figure. The baseline was defined as the expected reduction in the number of homeless individuals sleeping outside in the absence of the intervention. The baseline was reduced during each year of the intervention making it more difficult to generate payments in subsequent

[19] There are a number of street outreach teams (run by a diverse range of third sector providers) that are responsible for recording instances of 'bedded' down rough sleepers around London. These sightings are entered into the CHAIN database and include details about the location where the individual is seen.

years. If an individual was seen sleeping outside - even once - in a given quarter, the provider received no payment for that individual.

Figure 5.3 presents the target and actual earnings for Outcome 1 over the three years of the intervention. It illustrates that the providers failed to meet their target outcomes during every year of the SIB intervention. Table 5.4 indicates the percentage of projected income earned in each year. At the end of the first year, Providers A and B failed to meet their targeted reduction in 'bedded down' sightings achieving just 75% and 62% of projected payments that year. The baseline was revised in Year 2, with Provider A receiving just 5% of projected outcome while Provider B achieved more, but still only 15% of projected income. Neither provider received any payments for this outcome in Year 3. Provider A was slightly more ambitious than Provider B in Year 1 so was likely to have been disappointed by underperformance, and so might have focussed less on achieving any outcomes for Years 2 and 3 in response. Provider B performed poorly against all its targets in Years 2 and 3, it is also possible that it focussed less on Outcome 1 in light of poor performance in Year 1 despite the higher outcome targets in Years 2 and 3. Providers in both sites felt that this outcome was poorly suited to the SIB because many members of their client group were housed in stable accommodation but were recorded as sleeping rough on one or two occasions as a matter of convenience (e.g. they were in central London for social reasons and chose to sleep rough for one evening after seeing friends rather than travel back to the outer boroughs where they were now housed).

Figure 5.3 Outcome 1: Reduction in rough sleeping

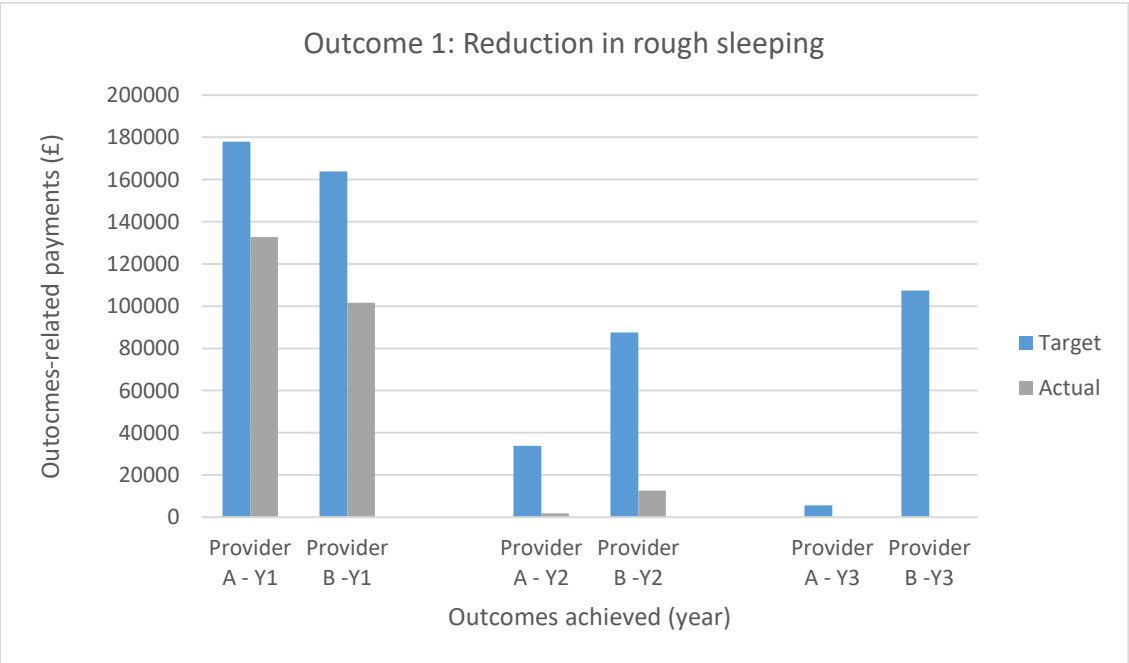


Table 5.4 Outcome 1: Actual payments as a percentage of projected income

Outcome 1: Reduction in rough sleeping			
	Actual payment (% of projected income)		
	Year 1	Year 2	Year 3
Provider A	75%	5%	0%
Provider B	62%	14%	0%

Outcome 2: Sustained accommodation

The move to sustained accommodation was an important outcome that comprised 40% of all possible outcome-related payments. There was a payment for the move into accommodation (paid no more than once per client), with increasing reward amounts if the individual was sustained for 12 and 18 consecutive months, during which they could not be seen sleeping rough more than one time in the six months prior to an outcome payment claim being made. Figure 5.4 shows the outcomes achieved for Outcome 2 and Table 5.5 shows the actual payments as a percentage of projected income. Provider A was very successful in Year 1 and doubled their projected income. This reflects its ambitious approach to generating outcomes-related payments in Year 1. While Providers A and B exceeded their projected income in Year 2, it is clear from Figure 5.4 that Provider B made more money from this outcome in that year. This extra income was likely to have offset its losses in the other primary outcomes and choice to be more ambitious with targets in the latter half of the intervention rather than in the first year like Provider A. Both providers exceeded their projected income in Years 1 and 2. While they did not meet their full targets in year 3, both Providers A and B came close to meeting their projected income targets at 87% and 95% of projected income.

Figure 5.4 Outcome 2: Sustained accommodation at entry, 12 and 18 months

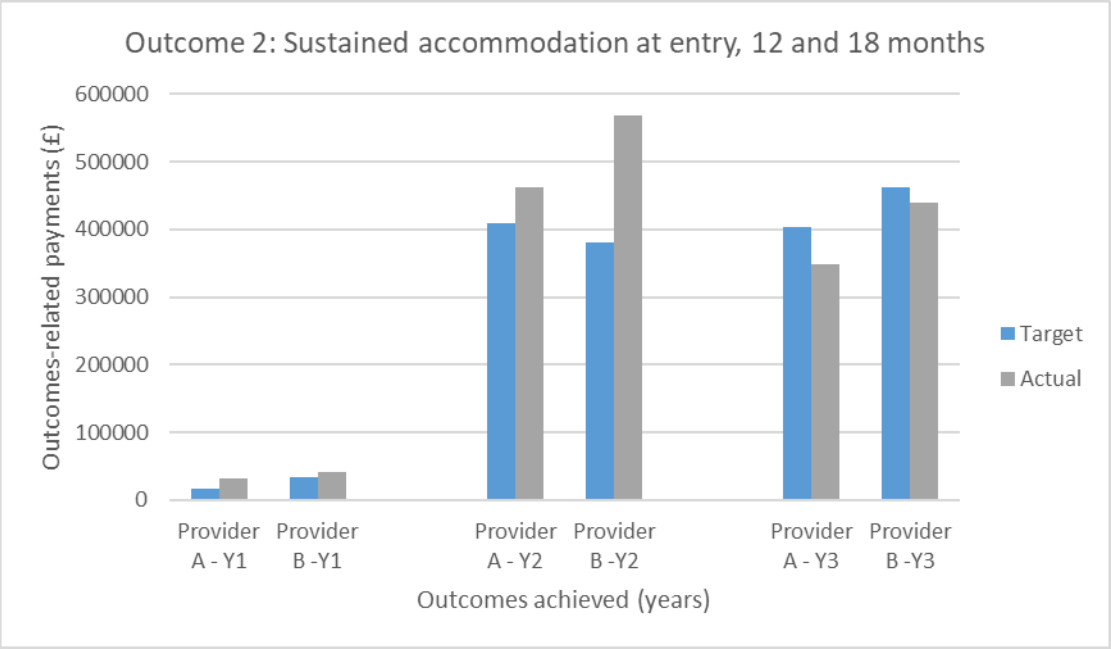


Table 5.5 Outcome 2: Actual payments as a percentage of projected income

Outcome 2: Sustained accommodation at entry, 12 and 18 months			
	Actual payment (% of projected income)		
	Year 1	Year 2	Year 3
Provider A	203%	113%	87%
Provider B	122%	149%	95%

This is consistent with the results of the DCLG's quantitative analysis that reported that the SIB had a significant positive impact on moving the group into long term accommodation with 37% of the SIB group entering accommodation two years after the start of the intervention, compared with just 7% of the comparison group (Spurling, 2017). No data were available about the income generated after the SIB ended during the payment tail[20] for 12 and 18 months of sustained accommodation.

[20] The payment tail refers to the only two outcomes for which payments were still possible from the end of the intervention in November 2015 to October of 2016; this was intended to ensure that clients that entered accommodation, or had sustained accommodation for 12 months, in October of 2015 received support to remain housed.

Outcome 3: Repatriation to country of origin

This outcome rewarded providers for repatriating non-UK clients to their country of origin, where possible, in two stages, first for the initial repatriation, and second, demonstrating that the repatriation had been sustained for six months. Figure 5.5 shows the outcomes achieved for Outcome 3, Table 5.6 shows the actual payments as a percentage of projected income. Neither provider achieved its targets in Year 1 of the intervention with Provider A achieving just 39% of projected outcomes while Provider B received just 17% of projected income. Provider A exceeded targets for repatriations in just one of three years while Provider B came close in Year 2.

Figure 5.5 Outcome 3: Repatriation to country of origin

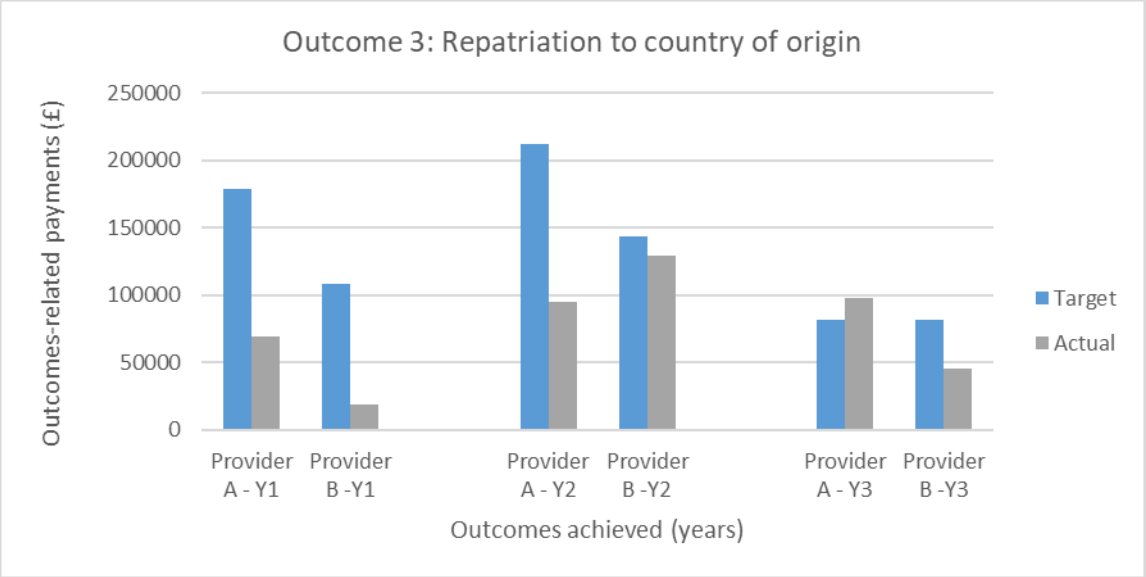


Table 5.6 Outcome 3: Actual payments as a percentage of projected income

Outcome 3: Repatriation to country of origin			
	Actual payment (% of projected income)		
	Year 1	Year 2	Year 3
Provider A	39%	45%	120%
Provider B	17%	90%	55%

There were significant policy changes in 2014 (Year 2) that affected the client group from the European Economic Area (EEA). It is likely that this policy change, unrelated to the SIB's direct incentives, influenced the increase in repatriations in Years 2 and 3 of the intervention. In January of 2014, citizens of the EEA were unable to claim Job Seekers Allowance (JSA) if they had not been in the country for three months, or did not meet a minimum earnings threshold. From April of 2014, citizens of the EEA faced new limitations on the Housing Benefits they were eligible for. This operated

as a disincentive for those who were not yet in accommodation to stay in the country but also meant that some clients from the EEA in housing and in work (below the threshold) were no longer eligible for financial support and were forced to return to rough sleeping. This is an apt reminder that there existed a range of competing incentives (e.g. for the UK Border Agency to facilitate repatriations) in addition to those associated with the SIBs that affected service delivery.

There was some evidence from the DCLG's quantitative analysis that SIB clients were likelier to stay in their country of origin after repatriation than a comparison group. There was no significant difference in those who sustained their repatriation over six months in the first year. For non-UK nationals who were repatriated to their country of origin, the SIB intervention had a significant positive impact with 8% in the SIB group repatriated after year one compared to 4% in the comparison group. In the second year, 12% of the SIB group were repatriated while just 5% of the comparison group were (Spurling, 2017). It is possible that the SIB group were likelier to remain repatriated due to support they received from Providers A and B to facilitate their return, such as help securing housing or training in their country of origin.

Secondary outcomes

Outcome 4: Education, volunteering, or employment (part and full time)

This outcome provided five percent of total resources available in the SIB contracts. This outcome rewarded the non-profit providers for encouraging the client group to engage in further education, such as the National Vocational Qualification (NVQ), volunteering or employment on a part- or full-time basis. Figure 5.6 shows the outcomes achieved for Outcome 3 and Table 5.7 shows the actual payments as a percentage of projected income. Provider A was more successful in Years 2 and 3, exceeding its projected income by 16% and 13%. Provider B gathered 34% and 58% of projected income in the first two years, but achieved a significant increase in the number of outcome-related payments generated in Year 3 by gaining 94% of projected income. This slow growth reflects Provider B's focus on the latter years of the intervention rather than the first years.

Figure 5.6 Outcome 4: Education, volunteering or employment (part and full time)

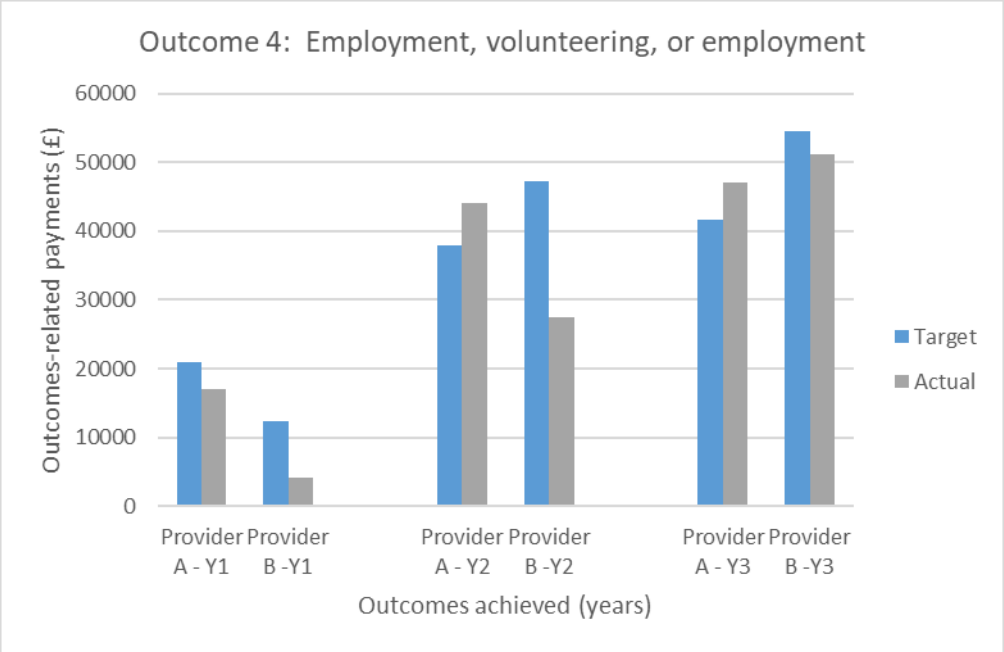


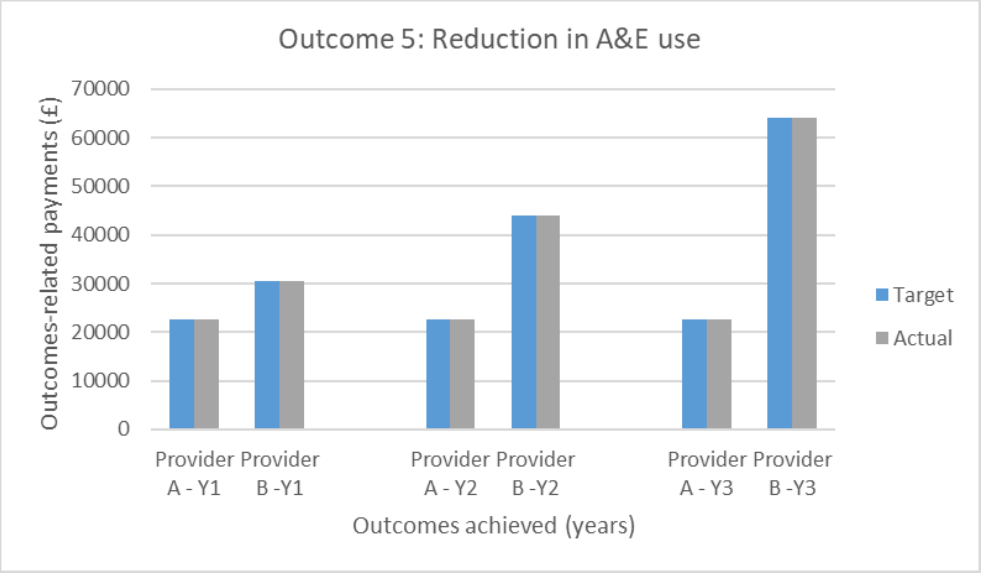
Table 5.7 Outcome 4: Actual payments as a percentage of projected income

Outcome 4: Education, volunteering, or employment (part and full time)			
	Actual payment (% of projected income)		
	Year 1	Year 2	Year 3
Provider A	82%	116%	113%
Provider B	34%	58%	94%

Outcome 5: Health

The health outcome was designed to enable providers to support the client group to better manage their health through a reduction in the number of unplanned visits to A&E. The commissioner was willing to pay providers for each A&E episode avoided, compared to a constant baseline for each provider's SIB cohort. In the contracts, the baseline was to be constructed using the number of A&E attendances for each provider's clients in the year before the program began. The commissioner was unable to access identifiable individual-level data from Hospital Episode Statistics (HES) on the SIB group's use of A&E due to a change in data protection law that took effect in 2013 affecting the Health and Social Care Information Centre (HSCIC) (known as NHS Digital from 2016)[21]. The HSCIC was only able to release the data for the cohort with the consent of each client. Approximately eighty consent forms were obtained (Mason et al., 2017) but this was an insufficient number for analysis so it proved impossible for the commissioners to generate a baseline or the number of A&E admissions during the three years of the intervention for the SIB group. The commissioner chose to pay each provider the full amount of their projected earnings as a sign of good faith that they were delivering a successful intervention[22]. Figure 5.7 shows the target and actual figures for each provider. For this outcome, Providers A and B set different health targets so Provider B, being more ambitious, received more outcomes-related payments for health than Provider A.

Figure 5.7 Outcome 5: Reduction in A&E use



[21] The feasibility study accessed individual-level data from the NHS Information Centre for a different cohort of homeless individuals with ease so this was an unforeseen issue that emerged after the contracts were signed because the HSCIC was a non-departmental public body that replaced the NHS Information Centre following the Health and Social Care Act in 2012 (Social Finance and the Young Foundation 2012).

[22] After the first year, payments were made in full for the health outcomes with the expectation that the data access issue was going to be resolved. This mitigated potential concerns about projected and actual revenues at the time for providers. It was not resolved at the end of years 2 and 3 so payments on full outcomes achievement were then made.

Summary of provider performance

For the primary outcomes, Providers A and B tended to underperform to varying degrees on Outcomes 1 and 3. Both providers were more successful in meeting, and exceeding, targets associated with sustained accommodation (Outcome 2). Provider B gained more income from this outcome than Provider A. In the first year of the intervention, Provider A appeared to be more ambitious and successful than Provider B in demonstrating outcomes. This reflected a front-loaded approach to outcomes and service delivery. Provider B was more ambitious toward the later years of the intervention. This reflected a slower approach to outcomes and a willingness to miss outcomes in the first year with the expectation that they would increase with time. This is an important distinction that affected how staff were deployed during the intervention and each organisation's strategic approach to service delivery. It is not possible to report whether Provider A or B made surpluses or losses based on the information available (See Section 5.3.1. for further details)

5.3.4. Service delivery and staff structure

The SIB contracts were novel approaches to service interventions in the homelessness sector because they operated across London's 32 boroughs and used an outcomes-based approach rather than the process-driven measures that were typical of the sector. SIB financing was seen to be beneficial for the target population, and allowed workers to provide ongoing support for individuals (instead of passing individuals between agencies) to lead less chaotic lives. Staff felt that such improvements would not have been possible without the operational freedom and flexibility that SIB financing entailed because conventionally funded services (e.g. block contracts) in this sector (e.g. for rough sleeping and housing transitions) tend to operate in silos, making it difficult, if not impossible, to follow up clients once they have been referred to other services or boroughs. Unlike conventionally funded projects, the SIB enabled a cross-borough, London-wide approach, and allowed staff 'navigators' to deliver highly personalised services and assistance.

The service delivery model in both non-profit providers relied on matching front line staff to the client group. Front line staff acted as 'navigators' to guide clients through a personalised pathway toward sustained housing and more stable lifestyles. At the outset, clients were assigned to front line workers based on client needs. Staff were allocated according to their specialised knowledge of specific client sub-groups, such as complex or older clients, or by borough, or according to their language skills (e.g. staff tasked with the Eastern European client group). The outcomes-focused approach allowed staff greater freedom and autonomy in working with their client population. In particular, the upfront capital investment from investors provided running costs for the teams and allowed for personalisation budgets for client needs, on the promise that small investments would

lead to larger outcomes payments over the course of the intervention. These personalisation budgets enabled creative, and often, supportive means of working with clients, for example, they were used to provide deposits for flats in the private rented sector or to buy furnishing for council-provided housing, such as curtains and blankets. In other cases, the funds went towards training courses for clients to enter the workforce (e.g. bricklaying courses) or for recreation, such as swimming lessons or video game consoles to ease the transition from the homeless community to a more solitary life in stable accommodation. Front line staff in both providers had more autonomy than in previous, process-driven roles in the sector.

There were six notable differences in how each team approached service delivery that reflected different strategic organisational priorities and approaches to the SIB contracts:

First, there were different approaches to how staff were organised in each site and in the use of paid and unpaid staff. Provider A used a rotating pool of social work students from a Scandinavian University and drew on unpaid volunteers and peer mentors, to deliver services to the client group. Provider B took a more collaborative approach by subcontracting a staff member from two providers that operated drop-in centres in Central London to join the SIB outreach team as a way of assuring wider reach or local buy-in from competing organisations. In both these partnerships, Provider B issued block contracts which covered the salary of one full time staff member at each organisation for three years, their incidental costs, and personalised budgets for their clients.

Second, front line workers in each non-profit provider managed different caseloads. Provider A's front line staff were assigned a larger workload with 70-80 clients each. The frontline staff in Provider A were designated as SIB 'Navigators', a role managers likened to a social worker in that they were responsible for liaising with the local council, housing or benefits tribunals while daily support for their straightforward cases was designated to social work interns, volunteers, or peer support workers who assumed a primary relationship manager role. The difference in clients per front line worker was an important structural factor that affected how the interventions were delivered and affected the allocation of staff time and resources per member of the group in each organisation. Although Provider A's managers reported pushing for additional staff resources at the outset of the intervention, and in the second year, it was unclear what, if any, concessions were made at this stage by senior managers and whether they resulted in a substantially smaller workload for the front line staff. Provider B's staff members had fewer clients, due to the larger size of their outreach team (see Table 5.8 at the end of this section for details of staff structure), with each staff member having

around 30-40 clients while the two team managers had 15-20 clients each. The staff team in Provider B was consistent in size throughout the first three years of the intervention (between nine to ten staff members) while the team in Provider A was reduced significantly after year one (from seven to four staff members).

Third, the two providers took a different approach to service delivery and staff to client relationships over the course of the three-year contract (plus payment tail). At Provider B, staff and client relationships remained relatively consistent throughout the life of the project, with clients only being shifted in extenuating circumstances, for example, a male client was transferred away from a female front line worker after inappropriate behaviour, or if a client requested it. By contrast, in Provider A, there was a shift in organisational priority to maintain achievable outcomes during the second year of the intervention, with a focus on sustaining clients in housing. Staff were assigned new client lists based on outcomes; for example, one staff member was tasked with sustaining clients in their accommodation, another focused exclusively on Eastern European clients, while another continued to focus specifically on rough sleepers in a central London borough. While the personalised approach to the interventions was similar, the staff structures differed in the following ways: first, there was less consistency between front line staff and the relationships they formed with the client group. Second, there was more flux in the managerial team at Provider A as there were four different team managers over the four years of payment for outcomes, each of which brought different approaches to how outcomes were to be pursued and how staff were allocated to clients.

Fourth, the approach to performance management and claiming outcomes-related payments differed in each site. Provider A's staff were responsible for the administrative work related to claiming outcomes, such as tracking client progress toward outcomes, e.g. by procuring tenancy agreements or documentation to prove that their clients were in a long-term care home or prison (both counted as sustained accommodation), or employment pay stubs to validate Outcome 4. Their team manager was also responsible for assisting with this, alongside a part-time administrator in the first year. This created a clear link between front line staff actions with clients and generating outcomes-related payments. By contrast, in Provider B, there was a full-time outcomes officer throughout the three years of the intervention who was primarily responsible for documenting and tracking outcomes for clients, based on regular meetings with front line staff who were expected to provide updates about their clients. This removed the administrative burden of evidencing outcomes from front line staff members so they could concentrate on their relationships with clients, but also had the potential to lessen the link between their actions and a financial reward for the organisation.

Fifth, interviews with staff about their previous roles and overall experience in the sector suggested that staff in Provider A had less experience in the sector with an average of 2-5 years of work before joining the SIB team compared to an average of 8-10 years at Provider B. It should be noted that Provider A had three staff members that each reported more than ten years of experience working with homeless populations.

Lastly, each provider organisation phased out their services to different timeframes. The SIB contract was for a period of three years, however there was a 12-month payment tail for the outcomes related to 12 and 18 months of sustained accommodation available until October of 2016. These extra 12 months of outcome payments were interpreted differently by each organisation. Provider A interpreted the contract to mean that the service was funded for 36 months, and initiated plans to wind down the service at the 30th month by formally referring clients back to other agencies and services when the service ended in October of 2015. At the request of commissioners, this provider agreed to keep one staff member and one volunteer on the project for an additional five months after the project formally ended in October 2015. On the other hand, Provider B felt it was required to run the service for the full three years and that the wind down period should only be initiated in the final month (35th month) of the project. It believed that the presence of some paid outcomes, in the form of the payment tail, allowed for a fourth year of operation. This enabled Provider B to maintain a reduced project team of four front line workers and one team manager to work with a reduced group of individuals in sustained accommodation, and with others from the client group on an ad hoc basis, until October 2016. See Table 5.8 for details about staff structure.

Table 5.8 Characteristics of staff structure in case studies

	PROVIDER A	PROVIDER B
MANAGERIAL TEAM	One team manager for the SIB team for 3 years, changing during each year of the intervention (4 in total)	Two team co-managers in post for 3 years. One remaining in post for year 4.
ADMINISTRATIVE SUPPORT	Part time administrator in year 1	One outcomes officer responsible for all administrative work related to evidencing outcomes, in post for 3 years.
STAFF SIZE	7 front line workers for the first year of the project, reduced to 4 in the second and third year. One staff member for Q1 of the fourth year.	10 front line workers for the first two years of the project, reduced to 8 for the third year and 4 in the fourth year (ultimately 3 staff members as one went on sick lead in Q2 of the fourth year).
USE OF UNPAID WORKERS	Use of social work interns from Scandinavian university on 3-6 month placements throughout intervention, use of volunteers and peer support members conducting face to face contacts with clients.	Some use of volunteers to assist with attending benefits tribunals or job centre appointments.

These differences in staff structure reflected senior managers' views on the potential benefits and risks of working under an outcomes-based contract. This impacted the resources made available to provide front-line services. It appeared that Provider A operated a leaner model given its lower number of staff in every year of the intervention while Provider B was willing to expend more resources on staff over the course of the contract.

5.4. Empirical research about the case studies

The London rough sleeping SIBs are among the world's first SIBs and were subject to multiple concurrent studies. These studies comprise two qualitative process evaluations (Fraser et al., 2018a, Mason et al., 2017), comparative qualitative analyses of multiple SIB sites (Edmiston and Nicholls, 2018, Fraser et al., 2018a), and a case study of one of the two SIBs (Cooper et al., 2016). There is one quantitative impact evaluation (Spurling, 2017) while another concurrent evaluation abandoned their efforts to conduct a comparative quantitative analysis of the two sites due to reporting bias in the data (Fraser et al., 2018a). In comparison to these evaluations and studies, this thesis seeks to understand the impact of the incentives embedded in the SIB contracts on the actions and behaviours of staff.

The concurrent studies provide useful contextual information about the SIBs, but a shortcoming of these studies is that they do not engage with the consequences of these contractual models on organisational and individual-level provider behaviours. Edmiston and Nicholls (2018) find that

differences in contractual structure had an impact on the degree of performance management, namely that the London rough sleeping SIB that did not use an SPV secured a lower number of sustained outcomes (Edmiston and Nicholls, 2018) but do not explore this finding in more depth. Another study examines the contractual implications but treats the SIB as an accounting mechanism for public services and uses one of the two SIBs to explore how different actors in the contracting process commoditise individuals with social problems. This study is unique in that it sets out the non-profit organisation's decision to engage in the SIB scheme in the context of the organisation's financial flows, and the wider environment of resource scarcity, for a non-profit that derived most of its income from government sources (Cooper et al., 2016). However, this study fails to consider that there are important differences in contractual structure between different SIBs, or how the SIB they examine differs from conventional commissioning to support their conclusions.

There are also differing accounts as to whether the London rough sleeping SIBs had a positive effect. One study finds that there is no evidence that suggested the SIBs provided better outcomes relative to concurrent or previous service interventions, or that sufficient data and evidence were available to enable evaluators to define and measure the 'impact' or potential value added by SIB contracting (Edmiston and Nicholls, 2018). It is not possible to draw broader implications from the available studies as to the impact of different SIB structures on service delivery or what the 'SIB effect' might be on provider behaviour.

There is just one quantitative analysis of the London Rough Sleeping SIBs and it does not seek to compare or contrast the performance of the two SIB providers. This is not in the remit of that study, and so, there is no empirical work that analyses whether overall performance differs by site, and to what extent any variations are attributable to different organisational responses to incentives. The quantitative analysis assesses whether the interventions were effective but fails to separate the two providers and treats them as a single intervention in the analysis. The impact analysis examines the impact of the SIB intervention against key outcomes. This quantitative analysis uses propensity score matching to assess the SIB group against a matched comparison group to ascertain whether the intervention led to a reduction in rough sleeping and finds that there was a significant reduction in rough sleeping when compared to a matched group. The findings of this study are limited in that the authors reported it was not possible "to disentangle the effect of the social investment model from the intervention service" (Spurling, 2017 p.8). This quantitative analysis is helpful in that it contributes to the very limited quantitative empirical evidence about SIB interventions compared to

no intervention, or a control group, but it could not explain whether, and why, one provider might have performed better on some outcomes than others.

There are conflicting reports as to whether these SIBs result in perverse incentives or adverse behaviour. The DCLG evaluation asserts there is no evidence of perverse incentives or adverse behaviours (Mason et al., 2017) while another study identifies anecdotal evidence of gaming and parking among staff but does not provide detailed information about what this involved (Edmiston and Nicholls, 2018). Another suggests that senior managers expressed ambivalence toward doing what would generate an outcome compared to what they would do if there were no financial incentives (Cooper et al., 2016). The evidence from these studies echoes findings from other studies of outcomes-based PbR contracts that find some evidence of adverse behaviours (Carter and Whitworth, 2015, Rees et al., 2014, Mason et al., 2015). The empirical evidence about these SIBs suggest that unintended consequences, such as gaming, may occur to the detriment of some members of the target population but that this can co-exist alongside improved outcomes for service users.

In sum, the academic evidence suggests that outcomes-based contracts and the rough sleeping SIBs can result in an excessive focus on how to measure and achieve outcomes. This dearth of data supports this study's qualitative approach to understanding the impact of financial incentives on non-profit organisations taking part in the SIBs.

5.5. Conclusion

This chapter described the study setting in which the two service providers operated to give contextual information to frame the analyses to follow in Chapters 6, 7, and 8. The discussion of the contractual structures explained how these were anomalous SIB contracts for two reasons: first, both providers were in a 100% p4p contract with the commissioner; and, second, the investors were guaranteed a return on their investments with a fixed interest rate provided that neither provider (or in the case of Provider B, the SPV) became insolvent. The contractual analysis revealed that Provider A assumed more financial risk and reward through a direct investment into the organisation, while Provider B opted to contain the risk of low performance to their organisation through an SPV.

The actual targets achieved were then analysed to understand the potential implications of the SIB contract on service delivery and response to incentives. Provider A set higher targets in the first year using a front-loaded approach to implementation while Provider B set out more ambitious outcomes

in the second and third years of the intervention reflecting a more gradual approach to achieving outcomes-related payments. This chapter then outlined how the providers approached service delivery and how the SIB teams were structured and organised.

This chapter provided an overview of the direct incentives for each organisation associated with the SIB contracts and a descriptive overview of the impact of those financial incentives on the organisation, performance and approach to service delivery in each provider. The next chapter discusses the impact of the SIB-specific direct and indirect financial incentives on the managerial teams in each site to explore the impact they had within each organisation, and how strategic priorities were identified and communicated through the managerial hierarchy in each provider.

6. Managerial experiences

6.1. Introduction

An objective of this thesis was to explore how new financial incentives were articulated and prioritised through the management structure of two non-profit organisations. This chapter examines the impact of direct financial incentives on organisations, and indirect financial incentives from senior to team managers in non-profit organisation to explore how the SIBs' incentives were filtered through the managerial hierarchy and affected service delivery, including how the case study providers organised, managed and staffed their teams.

The analysis in this chapter is based on data from interviews with senior and team managers in the two case study organisations that focused on the SIB incentives, task allocation, financial resources available, and performance management. This chapter first looks at the impact of the SIB contract on the agency relationship, particularly how managers responded to the new principals introduced by the SIB contract. Second, the chapter examines how managers approached incentives and financial risk at the macro level, with a focus on whether SIB outcomes were aligned with the organisation's mission and their views on the role of outcomes-based contracting in the homelessness sector. Last, this chapter examines how the SIB contract was framed and implemented at the meso-organisational level to understand how financial risk was communicated and how that affected task allocation, service delivery, and performance measurement and data monitoring.

6.2. Impact on the agency relationship

This section draws out the potential implications of entering a SIB contract on the agency relationship between the commissioner and the non-profit case study organisations. This explores the impact of incentives introduced by the SIB's novel contractual structure, where all payments from commissioners were derived from outcome-related financial rewards (See Chapter 5, Study Setting, Section 5.3.1. for details of the contractual relationships). Senior and middle-managers' views about the incentives introduced by the SIB contract were analysed to understand how they contributed to, and shaped macro-level operational decisions regarding service delivery.

The introduction of direct and indirect financial incentives has the potential to change the principal-agent relationship (Arrow, 1963, Prendergast, 1999). In a SIB, the agent (here the non-profit) has multiple principals, such as their commissioners and investors, and this can create tensions or

conflicts of interest for the agent, since what is best for one principal (here the investor) is not necessarily what is best for another (the public commissioner). Where there exist multiple principal-agent relationships, each principal seeks to induce the agent to put more effort into activities they care about, so there may be inefficiencies if the principals' goals are not aligned, or this situation will result in distortions that make the incentives to the agent less high-powered (Besley and Ghatak, 2003). In each providers' outcomes-based approach, the effort the agent exerted (i.e. agents were free to allocate their time and effort to the SIB group as they saw fit in the absence of intermediate process measures of performance) was not necessarily observable for the principal. To correct for such information asymmetries, contracts can be designed in such a way as to allow the principal to link rewards and effort to the principal's objectives, even when they are unable fully to observe the agent's behaviour (Lagarde et al., 2013), but this is difficult to do in practice.

The SIBs were set out as a way for the principal (public commissioner) to contract for desired outcomes, specifically a reduction in the client group seen sleeping outdoors and improved outcomes for a group of entrenched homeless individuals, that linked rewards to the principal's objectives as they were unable to fully observe the agent's behaviours (here, Provider A or B). The presence of multiple principals can create tensions or conflicts of interest for the agent since the goals of the public commissioner were not necessarily those of the investors who wished to recoup their investment. Some principals may exert more influence on senior managers than others, such as where objectives are not complementary (that is, where there is not a single objective that all principals can benefit from). For example, a senior manager might prioritise the investor's interests over the public commissioners, and so might focus efforts on areas of work that will satisfy the investor, to the detriment of public commissioner-funded work.

6.2.1. New principal

In the absence of the SIB contracts, the senior managers in the non-profit case study organisations were accountable to the following principals: 1) to their governance boards; 2) the public commissioner (as a source of funding); and 3) the organisations' donors. The SIB contract differed from the conventional commissioning relationship between each non-profit organisation and its government purchaser by introducing a new principal, the investors. These investors provided seed funding for the intervention and expected the repayment of their investment with a fixed interest rate in both sites, except for Investor 2 in Provider A, who was additionally entitled to a small percentage of the outcomes payments from the government purchaser. The investors joined the SIB with the expectation of gaining a return on their investments and were incorporated into the

governance structures for each non-profit organisation in different ways. This introduced external performance monitoring, defined as the introduction of different governance relationships related to the SIB.

The interview data from Provider A suggest that the SIB contract introduced two new agency relationships to the organisation's existing principal-agent relationships between the organisation's senior and middle management and their investors. First, there was the obligation to repay loans to investors. Investor 1's funds came in the form of a loan, subject to repayment. Investor 2 provided a loan, subject to repayment and was involved in the organisation's board of governance (see below). The third investor provided grant funding so did not require repayment (See Chapter 5, Section 5.3.1. for details of the contractual arrangements). In the second, a representative from Investor 2 was placed on the non-profit's board of governance in an observer role, where they had access to organisational information. As a new actor, the representative of the investor could seek to influence the senior leadership team and speak in board meetings, but was limited in that they had no voting rights. The introduction of this principal was met with apprehension by one senior manager who said:

> "*I think initially I was feeling a bit uncomfortable about them being on the board, but that's only been good, and I would have no problem if they wanted to return to be an observer on the board."* (A1).

The investor's observer role was not perceived to be a potential conflict of interest. One senior manager felt that *"our mission and their mission are so closely aligned, that I think that enables them to do that"* (A2).

The interview data from Provider B suggest that the SIB contract introduced two new agency relationships to the organisation's existing principal-agent relationships. This was in the form of 1) the obligation to repay loans to investors and 2) the investors who introduced an additional layer of governance and oversight embedded via the SPV's governance board. Unlike in Provider A, these stakeholders had no role in the wider oversight of the non-profit's direction as their oversight was limited to the SIB service. Senior and middle managers in Provider B were accountable to a new principal (the investors as directors of the SPV board) but expressed that these relationships were positive, with the investors having a high degree of trust in the non-profit's expertise:

"It's been a good experience for us to have to answer to private sector, social investors, and still private sector investors. So, there's fresh eyes on what we do, and that's been interesting, but I think they've deferred to us in the, sort of, day to day running of our work with clients, because they aren't experts, and they appreciate that we are. So, maybe we've been lucky in that case, but they haven't tried to be involved on a day to day basis. They're more interested in the tone and the general direction of travel, and that we do well." (B2)

Provider B's wider organisation was subcontracted by the SPV as the service delivery body in this SIB contract. In Provider B, the SPV's directors held influence over the allocation of funds for service delivery. One team manager said that the directors were closely involved in operational decisions and had a role in scrutinising subcontracts, saying:

"*[The SPV] and [Provider B] are two different things, so I think that the investors have taken a keen interest in money that is moved across from [SPV] to [Provider B]*." (B2)

"I think ultimately, we are accountable to that [quarterly governance] meeting, which is, [senior manager] sits on it, [other senior manager], [name] is the head of services in [Provider B], and then there's the investors who attend that meeting as well, and the director of finance. So, that's where we go over figures, and the projections and the outcomes, and any areas of concern are flagged up at that meeting, and then we have to answer to it, there and then. So, that's the main oversight that we have." (B2)

6.3. Approach to incentives

This section discusses the impact of the incentives introduced through the SIB contract on the two non-profit providers and the impact this had on their behaviour. First, this section considers how the senior and team managers interpreted and prioritised the introduction of direct financial incentives on their organisations. Second, it discusses how indirect financial incentives were framed and understood by team managers.

The SIB contract introduced direct financial incentives in the form of outcomes-related payments to the two providers for achieving outcomes for a defined group. In both sites, all data monitoring and performance measurement were conducted in house. It was possible that greater information asymmetries could arise where agents (here, the two non-profit organisations) had considerable freedom and flexibility over the structure of their service delivery team and where there was no direct

external monitoring by another party. This differs from conventional contracts for service delivery in the homelessness sector and other SIBs where oversight or direct management is embedded in the service delivery contract, or in the form of commissioner-driven process targets, such as an external auditor, or a performance and contract manager. Further, the SIB contracts differed from conventional funding mechanisms because they were only remunerated on outcomes. This was unlike conventional forms of financing in this sector that link service provision payments to intermediate process measures, such as participation rates or service delivery specifications.

As the outcomes-based approach introduced direct financial incentives for each organisation to achieve outcomes-related payments, senior managers had considerable freedom and flexibility to set out organisational priorities for their team managers and over the structure of their service delivery team. The introduction of direct incentives in the form of financial rewards for the organisation affected how senior managers in each organisation set out their strategic priorities and communicated them to middle and team managers. In turn, middle and team managers had the freedom to direct their staff along a continuum of potential behaviours that may have prioritised financial incentives over actions that placed the client group first. These potential behaviours include, but are not limited to, potentially perverse behaviours such as parking, creaming, gaming, or positive unintended behaviours, such as greater autonomy or more effective pathways to societal integration for homeless individuals.

One senior manager reflected cautiously about the freedom and flexibility embedded in a SIB contract, particularly on the potential limitations of expecting non-profit service providers to do their best because they are expected to act altruistically. This manager's perspective highlights the difficulties with using incentives in contracting for outcomes in non-profit organisations, as it is difficult to control for the preferences and priorities of individual agents.

> *"There's always the risk that if it is a [p4p] program, where some degree of gaming or cherry picking is available –are the people who need these services the most, actually getting [their] needs neglected – because there's nothing triggering [service delivery to them], minus the confidence [that] we're working with people who are highly motivated to help people, so we'll just trust their best judgement, which is great and it's largely true, but it's not always true? You're taking a real leap of faith on the organisations hiring the right people, and hoping that they do good work, so therefore their teams will do that."* (B1)

This exemplifies the difficulties embedded in introducing incentives when a principal (public commissioner) contracts for outcomes from non-profit organisations. It is difficult to contract for the full range of preferences and priorities of individual agents involved in service delivery.

6.3.1. Non-profit mission and the alignment of SIB outcomes

A non-profit organisation's ethos and operational focus is found in their mission statement, a guiding principle that frames their focus and work. When non-profits embark on work that is perceived to detract from or be poorly aligned with their mission statement, there can be 'mission drift,' described as activities a non-profit engages with that may divert time, resources, or energy away from the non-profit's mission (Weisbrod, 2004, Anheier, 2005). It is important to discuss how the senior leadership viewed and framed the SIB work within their organisation's goals and their wider role in the sector.

Interviews with the senior leadership teams at both case study organisations revealed that they saw some novel aspects of the SIB as aligned with their respective organisational missions. In both cases, senior management felt that the SIB's outcomes of supporting sustained accommodation, fostering transitions to employment, and thereby improved health outcomes were aligned with their own best possible hopes for the group, with one senior manager saying, *"the metrics made sense, they were holistic, they took out some of the cherry picking that can go on in PbR stuff where you just go for the easy outcomes"* (B1). The senior leadership at Provider A emphasised that the SIB work was appealing to the organisation because they saw the intervention's focus on outcomes achievement, such as settled accommodation in the UK, repatriation to country of origin, transition to education, training, volunteering or employment, and less chaotic interactions with the NHS, as being aligned with their organisation's mission to *"transform people's lives"* (A1).

The introduction of outcomes based rewards in these case studies was seen to be a positive thing insofar as the paid outcomes measures were seen to reflect core organisational goals in both organisations. There was broad support for the SIB's focus on securing long-term accommodation to facilitate a pathway to social integration and improved health outcomes as supportive of each organisation's own goals:

> *"The outcomes were so in line with our business. Getting people into long term accommodation was really important, always has been…" (A1)*

"it's really core, core business and so it wasn't particularly that it was a SIB or that it was PbR, it was mainly that it also overlapped with a lot of stuff that we ran, some generic street outreach services, in some of the boroughs that would be used. So, it was a no brainer really to go for it." (B1)

6.3.2. Organisational views on contracting for outcomes

It is important to consider how senior, middle and team managers viewed the use of outcomes-based contracting in their work, and for wider application in their sector. By understanding how managers saw the imposition of outcomes-related financial rewards for the organisation, it is possible to understand the organisational choices and priorities set out by each non-profit.

In both providers, there was a demonstrated willingness to engage with the new service delivery model and explore how success could be achieved. In practice, both providers were eager to emphasise that their SIB experiences were very positive. This indicated that the senior leadership in both organisations were strongly committed to relaying the importance of the intervention, and in enabling their service delivery team to be successful. For example, a senior manager in Provider B was sharply critical of the potential downsides of outcomes-based contracting but felt that the SIB's focus on longer term outcomes was positive, saying:

"I'm a big fan, not necessarily of PBR, but I'm a big fan of sustained outcomes being your measure of how well you're doing." (B1)

The senior leadership in both organisations reflected on the success of the projects in terms that emphasised the benefits of outcomes-focussed work as opposed to rewarding process measures at the organisational and service delivery level because of the freedom and flexibility it enabled. The quote below illustrates how a senior manager in Provider A described how the SIB freed providers from focussing on processes, to what worked best, rather than being cautious about the potential drawbacks or hazards of the outcomes-based approach.

"What you can do with a SIB is, in a way, you don't have to be concerned about how the outcomes are achieved. You're just asking the organisation to find ways of helping that group of people, so you can step back, and the SIB if you like, does its work because it's based on payment by results and there's an obligation, then, on the organisation that's involved, to find solutions. That's what the SIB did for us, it forced us to develop new relationships, and new ways of working. In the process,

we learned a great deal. We never would have thought about those different long term accommodation outcomes without a SIB." (A1).

Managers in Provider A welcomed the introduction of outcomes-based contracts and did not express concerns about the use of the SIB financing mechanism in their work. The senior leadership were asked if the use of outcomes-based performance funding was at odds with the non-profit's organisational ethos. Interviewees did not view the imposition of outcomes based rewards to their work as a problem but as a positive influence in focusing their staff on organisational goals. For example, when asked to reflect on the use of performance related pay in the non-profit sector, one senior manager compared their organisation's experience to that of another organisation where:

"… they regarded themselves as almost being tarnished working to a payment by results approach that's shifting them away from their very strong moral imperatives. I think most of the staff at [Provider A], they didn't feel that, because the outcomes were so in line with our business. Getting people into long term accommodation was really important, always has been, and it gave us the opportunity, and it forced us to unlock new outcomes, and new options that we hadn't considered before." (A1)

By contrast, Provider B expressed greater scepticism about the use of outcomes-based payments in the homelessness sector. One senior manager said they decided to bid for the project because the organisation had an obligation to their commissioners to test the use of SIBs and performance-related pay in the homelessness sector. Interviews with senior and team managers described an organisation that did not stress the importance of the SIB to their organisation's reputational success. Here, one informant from the senior leadership team said "*I guess we felt that we had to be in it really, whether we thought it was a good idea, SIBs or anything like that, it was kind of the new show in town and we probably could have financed the thing ourselves, but we wanted to see how it was structured, what it did and didn't do. Used it as a pilot really."* (B1). The managers were confident that the organisation had a strong reputation in the sector and felt, at the outset, that if the project failed, it would not be for a lack of effort or "*for fault of trying*" (B3). Managers were ambivalent about the importance of the SIB's financial success due to underlying concerns about whether performance pay could be at odds with the organisation's ethos. The language used to describe their choice to participate in the project may indicate that there was a gap between what constituted SIB success and organisational success:

"Payment by results has been great for us. We think it [has] given the team a, sort of, focus and a drive that's just been really great, maybe surprisingly so, I don't know. And, because we are a homelessness charity, we've been able to just ignore the potential issues with payment by results, which are that you cherry-pick and you don't work with the most in need. We have, anyway, just because we see that as our role. Reputationally [sic], it'd be rubbish for us to just say, well, we're going to work with these easy people, and morally – why would you work for an organisation like this if you're going to do that? But, that is definitely a risk with payment by results, isn't it? Especially 100% payment by results." (B2)

This confidence extended to their relationships with commissioners. One team manager affirmed that the organisation had "*done rough sleeping for a long time, so I think the commissioners are fairly confident that we know roughly what we're doing, so we had a bit of leeway from them, I'm sure, if our results initially weren't that great*" (B2). This was an important finding which is likely to have affected how the project was framed and articulated from senior managers to mid-level management and the staff that implemented the project.

6.3.3. Organisational approach to financial risk

Both provider organisations acknowledged that the SIB projects placed their organisations at financial risk, especially since repayments were due on a quarterly basis with interest (See Chapter 5, Section 5.3.1 for contractual details about the allocation of risk between parties in each provider side). The senior managers in Providers A and B conveyed that the viability of the project over the three years of the contract, particularly for maintaining overhead costs and staff levels, was closely linked to the level of revenue generated by the projects. At the strategic level, managers in both organisations framed their efforts and use of personalisation budgets for the client group, in part, as a current investment made relative to the potential for future outcomes-related payments:

"So, we've got staffing, and what we call, personal budgets. So, they're the two big costs and we've got a record of every client, how much we've spent on them. So, we try and balance up how much money we're going to make off them, how much money can we afford to spend on them? So, it pays to pay for people's deposits sometimes, £2,000.00, because actually you're going to make £8,000.00. So, it might seem like a lot of money, but it's just a way of weighing it, and that was very different for the team, I think, this, we're going to spend this money now and we're going to calculate that we're going to get some outcomes out of it. So, it's always investing, what does the client need now? What's the pay-off going to be?" (B1)

This was echoed by team managers in Provider B as they described their overall approach to outcomes and how the SIB model was operationalised:

> *"So you'd spend money to make money and that's a business model that's been there for a long time. You don't have any business that says, "Oh, I can't spend anything," 'cause if they want to make profit, then they have to put something in first of all, and we did that from the very get-go, we did that with the investors, and then we did that throughout the project. So, we would have no qualms in buying somebody [a] carpet, paying for curtains, we want them to live in their flat, we don't want them to, to just have the keys to their flat and it feel as cold and dank as the streets do, you know. So we're creating a home in order [for] them to actually live there." (B3)*

Both organisations were similar in how they articulated the merits of investing time and money into the population to achieve outcomes. Both acknowledged that this was linked to the sustainability of the intervention over the three years of the project. It should be noted that Provider A's managers utilised harsher language about the importance of focusing efforts on generating outcomes-related payments. The language used to describe the organisational prioritisation of financial incentives revealed how the senior leadership framed, and potentially transmitted, project goals as an important strategic shift to team managers and front line staff.

> *"It's not that this person on the street is going to be neglected – if there's any sign they're going to move off the street, we'll be around that person like wasps round a honeypot in order to get that person off the street. We're entirely committed to getting the most vulnerable off the street, but we have to decide where we were going to focus our attention, and I think that was an interesting shift for the team." (A1)*

At the middle management level too, there was evidence of this focus on outcomes generation. One senior manager made overt references to how team managers were pushed to emphasise the importance of meeting outcomes to front line staff:

> *"I think every single day [team manager] was telling them the first contact was the first [outcome], and then people off the street. So, as a team, concentrate on rough sleepers and get as many off the street. And then that naturally, the [outcome] goal, initial*

accommodation, outcomes as well as you, as you went along. So that's what happened. We also talked to them about how much money you get for each outcome." (A3)

By contrast, Provider B's managers presented a more cautious approach to the potential for revenue generation. Managers were aware that the SIB was high profile and required that they be: "… *outcome focussed; we have to make sure that we're on the ball in a, sort of, business-minded way, where maybe we wouldn't be in other commissioning structures."* (B2). This differed from Provider A as Provider B's managers did not report overt pressure from senior management to strongly communicate the importance of generating outcomes to their staff.

6.3.4. Organisational approach to staff structure and expenditures

The SIBs represented the opportunity to expand service delivery in innovative ways in each organisation. It is important to consider the strategic value placed on the SIB's success and on generating outcomes payments in each provider. Where high importance was placed on generating outcomes payments to ensure that the total loan amount could be repaid, it appeared that the organisational approach to staffing differed, with a focus on risk mitigation in Provider A. For example, in Provider A, there was a significant decision by senior leadership to pare down expenditure on clients in Year 2 after lower than expected revenue from the first year of the intervention (See Chapter 5, Section 5.3.3, Provider Performance for details of target and actual performance and Chapter 7 for details of how front line staff responded to this). One manager noted that they were subject to very stringent financial constraints compared to a previous manager. This was because of an "*overspend in year 1 and part of year 2*" (A4), and so, this manager had access to smaller personalised budgets for the client group than early in the intervention. This manager was limited in the amount of money available to operate the project and suggested that it might have been better to start small and grow the service than the front loaded approach the organisation used.

By contrast, in Provider B, the managers took a more cautious approach to expenditure in the first year, and throughout the intervention. They displayed a greater reluctance to buy large items for clients and tended to provide deposits for the private rented sector but framed them as loans to clients subject to repayment. This was intended to foster a sense of obligation among clients, but also to preserve capital for service delivery over the long term. Where entertainment was provided, staff emphasised that any tablets or televisions provided to the client group were normally donated or financed as part of grants for technology from other organisations.

There were conflicting reports at Provider A about the reduction in expenditure. The senior leadership did not corroborate, and denied, that such operational decisions were made because of lower than projected performance-related payments after the first year of the intervention despite claims to the contrary by all other staff interviewed in Provider A. As a result, it is possible that either the senior leadership chose to reduce costs by applying firm pressure on middle managers or that there was a substantial misunderstanding throughout the organisational hierarchy.

6.3.5. Organisational approach to collaboration with other service providers

In both case study organisations, the senior leadership were aware of the high-profile nature of the SIB contracts and that they were intended to disrupt traditional approaches to service provision through the introduction of a housing-first and outcomes-based approach. The provider organisations differed in how they responded to these financial incentives, with Provider A choosing to deliver services in-house while Provider B chose to sub-contract with other local partners. In Provider A, these decisions can be viewed as organisational choices that set out a more competitive, results-focused path for mid-level managers and front line staff who implemented the project, particularly in the front-loaded approach to outcomes in Year 1. In Provider B, it illustrates the longer-term view that Provider B took for the organisation, particularly as it relates to the delivery of services over Years 2 and 3 when they were more ambitious about the number of outcomes achievable. These strategic organisational choices highlight the difference in how the two SIB projects were conceptualised and operationalised at the outset.

Provider A framed its SIB project as part of an innovative way of working in the sector that required a more business-like approach to achieve better outcomes than existing service provision. For example, one senior manager said, "*many other agencies couldn't see how you could create a project like a business and then work with people*" (A3). The senior managerial team framed the SIB as a new way to engage with a sector that was 'in shambles' and 'failing', and viewed their service delivery model as disrupting established homelessness service pathways. The managers chose not to collaborate with other organisations because they thought that it could erode the sense of a single team and their organisation's goals:

> *"I never wanted that to happen, because my thing is we are a team and there's a danger you lose that team dynamic if you're kind of spaced out all over the place. How do you have a consistent message? How do you have a consistent vision if you're spending 95% somewhere else? So, I was really wanting it to be a case of 'we're a team'."* (A5)

This provider also felt it was unnecessary to establish formal partnerships or subcontracts with allied organisations. This was because they felt other providers were paid for their efforts, albeit differently, and they believed that they were responsible for most of the work that led to outcomes-related payments:

> *"… why should we pay someone to, you know, put people into a nice new job, if that was just because someone else does it, does that mean we've got to do it now? And so it comes, you come to a turning point, you know, what do you want to do, that's how I felt, you know, and I think my manager at the time, [manager 1], discussed that with me and "What do you think?" And I thought well we had been doing a lot of the work ourselves anyway, I thought why do we have to pay them money for it? So in that sense I was glad that we took the path that we done really."* (A9, front line staff)

> *"There was a lot of resistance from, certain people because, essentially, I mean, all these clients were not our clients, they were clients who had already been assisted by other individuals, so I think some of them kind of took it like a slap in the face saying, so what is it you can do that we haven't done already. What makes you think that you're better than us, kind of thing?" (*A5)

It was reported that other non-SIB service providers in the homelessness sector were hostile about collaborating with, or contributing to, work that aided clients in Provider A's group. Senior, middle and team managers felt that other service providers colluded, to reinforce dependency in their clients because of the fee for service nature of their service delivery contract so it was unsurprising that they were reluctant to help generate outcomes-related payments. There was little emphasis on cultivating collaboration and partnership working to enable buy-in from other service providers at Provider A.

In Provider B, there was a greater focus on quickly forming a team and pursuing collaborative partnerships with other service delivery organisations that were already involved in a Central London borough where most of the client group lived. The senior and team managers said this was a conscious choice to pursue collaborative approaches, drawing on the expertise and resources of other allied organisations to succeed with the project.

At the outset, there was a decision by the project's director to subcontract service delivery to two other provider organisations. Provider B established a formal partnership with two day centres (where large numbers of their homeless group members were regularly found) in a central London borough. This enabled wider buy-in from organisations they would be working alongside, while benefiting from their new partners' relative experience and knowledge about the SIB client group. There was a tacit acknowledgement that partner working was important to programme success and it was important to corral others in the sector to enable wider buy-in and support for Provider B's outcomes-based payment work with clients.

> *"So instead of trying to put our own people into their centres, it made sense to recruit and have their people in their centres. You get buy-in, all of a sudden they want to help you out. You get added value, in that you get the outcomes from work that you're not paying for as well. The day centres are achieving and things like that, so you get two big well-funded bodies working for you and instead of what [Provider A] did, was not to do that really, and they encountered probably more blockages I think, to them achieving stuff… it's not best if you have lots of different people working in different ways and no one's really talking." (B1)*

The difference in organisational approach to the wider sector is captured in the quote above and points to how the two SIB projects were conceptualised and implemented in different ways at the outset from the perspective of a senior manager. This highlights the longer-term view that Provider B took for the organisation and delivery of services over the latter years of the intervention.

6.4. Framing and operationalisation of incentives and outcomes-based contracts at meso-organisation level

Senior managers were influential in determining how the direct and indirect financial incentives embedded in the SIB contract were framed and understood by team managers. By considering how the case study providers communicated, measured and monitored team performance, it was possible to explore the impact of these new incentives for each organisation.

6.4.1. Communicating financial risk

It is important to consider the influence of senior leadership and management on the actions of team managers. For example, in Provider A, managers appeared to have been under substantial pressure

to meet outcome targets, and demonstrate that the project could be a financial success. The high organisational priority about this project resonated throughout the interviews with middle and team managers. For example, the chief executive attended team meetings on a quarterly basis. Managers in Provider A also cited the rapid mobilisation process where they "*had to hit the ground running*" (A3) in the early days of the contract.

Managers in Provider A viewed outcomes, and outcomes achievement, as key guiding goals that framed and oriented their work. They were reported to be a useful motivational tool for their staff. One team manager confirmed this articulation of these strategies in explaining how managers presented the achievement of outcomes to the front line staff team:

> *"If you miss one, this [is how] much [money] we lose. And that motivated the team as I said before, to motivate the team outcome to make them outcome focused, we know the client is going to benefit in the end… we had to get people into accommodation" (A5)*

Senior managers exerted a strong influence over their team manager's staff capacity and the service delivery model. Interview data revealed that Provider A's low performance in year one had direct consequences for how the project was funded and staffed in subsequent years. This limited the capacity of the team manager to staff her/his team as s/he wished to, or to invest in different areas of service delivery as s/he saw fit. In this case, the outcomes-based contract resulted in a sense of resource scarcity[23], and pressure to constrain costs by any means, rather than enabling the team manager to use upfront investment funds (from investors) to build capacity.

> *"SIBs (sic) is very different, in that although the budget is set for what could be spent [in] year[s] one, two, and three, I think because of the overspend in year one and two, that although I've been given what I could ideally set as well, I'm more or less being told, "No, don't spend any more." So in an ideal world, yes, I would have my own budget and I could be like, "Well, we've got client welfare, I'm going to spend an awful lot more," but taking into account*

[23] If Provider A had met more outcomes targets in the first year, it is possible that the Senior Leadership might have made more resources available to the SIB delivery team in the second and third years. Conversely, with more resources in Years 2 and 3, it was possible that they could have hit more and more outcome targets, and therefore the staff could have gained more and more by way of resources over the course of the contract. See Chapter 5, Section 5.3.2., for a fuller explanation of target versus actual performance over the course of the contract.

[that] if we haven't hit our targets in year one and two, that then has an impact, which naturally is staff numbers or how much extra resources there are." (A4)

There appeared to have been a less pressurised environment in Provider B. Managers reported that low performance in the first year did not affect service delivery and staffing numbers. The interview data from Provider B did not reveal an explicit emphasis on the link between payments and where effort should be exerted by staff:

"I was very conscious that they didn't get wrapped up in the outcomes. And that some of staff would get more outcomes than others, so it wasn't a competition. I remember the first sort of quarter, one of them saying, "But I'm never going to get an outcome because of the clients you've given me." And it was true that on paper she wouldn't have got an outcome in the sense that she had the extremely, complex cases with rough sleeping histories of 20+ years in some of her clients. And I said, "Well, you won't get them as quickly as other people but you'll get them, and we're not, your salaries aren't payment by results and we're not doing a [sic] performance reviews of, you need to get X amount of tenancies, you need to get this, that and the other." (B3)

In Provider B, interviews found no evidence that team managers used the financial incentives for the organisation associated with outcomes-related payments to motivate their team. Here, the SIB enabled personalised budgets and access to funds that were not otherwise possible in project funded through conventional commissioning. There was evidence that team managers in Provider B monitored whether front line staff used personalisation budgets for the client group in an equitable way on a regular basis.

"We did record how much money we spent on all individuals and then [team manager] would look at that and flag any individuals who we were spending a lot of money on and then he would do that by worker as well. So he would pinpoint any worker who was spending too, a lot of money and then question them about that and just try to make them more aware of if, if it's really necessary or not." (B10, administrator)

By contrast, in Provider A, there was evidence that personalised budgets were sharply reduced across the group to mitigate the financial risk to the organisation throughout the intervention. One team manager reflected on how s/he managed the consequences of the overspend in year one:

"I really just cut down on them using their credit card. [At the] team meeting, I was saying that we spent this much and we need to stop the spending. We need to stop taking out people for coffee. We've engaged with them now, we can do other things. We could do, you know, peer mentoring and getting for, going for walks and museum." (A4)

6.4.2. Approach to service delivery

At the operational level, each case study organisation's approach to service delivery reflected how the financial incentives were understood and prioritised by the managerial teams.

At Provider A, the leadership team enacted a front-loaded approach to service delivery, intended to introduce an external 'shock' to the homelessness system, with the intention of jolting clients and staff out of established patterns of working through an influx of personalised support and financial assistance through personalised budgets for each client. Their team was smaller at the outset of the intervention with one team manager and seven front line staff, and reduced after the first year of operation to four front line staff. To compensate for the smaller team, the service delivery model relied on a mix of unpaid workers, including short-term social work interns drawn from a Scandinavian University partnership and volunteers. The volunteers were described as 'peer mentors' – individuals with previous experiences of homelessness or substance abuse (See Chapter 5, Section 5.3 for details of the provider's decision to use a front-loaded approach to intervention). This reflected the senior manager's focus on breaking even, after lower than anticipated performance in the first year of the intervention:

"I mean, that's important to us, because we want to make sure that we're financially robust, but also, that's important, we had to prove to ourselves that it could be done, because what we don't want to do is embark on lots of exciting SIBs that give us high profile, and we find out that we're essentially spending our reserves. But, that isn't to say we didn't also bring other resources from elsewhere to support the SIB..." (A1)

At Provider B, the leadership team made an organisational decision to employ a consistent number of staff members over the 36 months of the contract. This enabled the organisation to take a gradual approach to outcomes' achievement. Both managers felt that they had sufficient credibility in the sector, and so pursued a slower approach to achieving outcome targets. This was notable because they expressed that they were confident that if outcomes were not met in the early quarters, they

would be able to compensate for any losses in subsequent quarters. Provider B's managers expressed a high degree of confidence and autonomy in how outcomes would be pursued. One team manager said:

> *I think we had quite a slow start outcomes-wise. I think initially, the first couple of quarters, our tenancies were not great; we didn't have huge outcomes, and I suppose there was a bit of concern at that stage, but we had taken this approach deliberately, so we kind of knew that that was what was [anticipated]."* (B2)

In Provider B, there were lower than projected outcomes achievement in the first year but team managers were confident that their approach to service delivery would result in outcomes-related payments in the second and third years of the intervention. This reflects the finding that the managers in Provider B had a wide degree of autonomy and did not face strong organisational or strategic pressure to generate outcomes-related payments. There was no evidence that the team managers faced pressure to pursue outcomes as a source of revenue generation to justify continued expenditures, such as staff salaries or client expenses. Instead, team managers and their staff were cautious in how they framed service delivery, given the potential for adverse behaviour:

> *"…people were concerned at the start about whether we would push people into things too early just to get the payment, when they weren't ready. I really don't think we did that. I think that's part of the maybe slightly different approach we took, because we thought, well, that's a, sort of, Housing First approach; that's not going to work with everyone. We've got three years, we might as well take our time and give people a chance to get there eventually... That's got more chance of sticking in the long run." (B3)*

> *"There were some people that, kind of, were so chaotic and had been on the streets for so long … that the prospect of them sustaining 12 months in accommodation was so slim that if you thought like that, you probably just wouldn't work with them. So, it was really trying to do whatever it took to minimise harm and stuff, and it was, the thinking was much more, like we spend the money where it's needed, and the outcomes that we get with that client might not make up the money that we're spending, but the outcomes we get with other clients will." (B10, non-managerial staff)*

These quotes reflected the gradual approach to outcomes achievement taken in Provider B. One manager added that her/his role was shield workers from outcomes, saying in the first instance, the

role of the manager was to worry about missed outcomes, so if targets were missed in one area, it was their responsibility to figure out if it was possible to *"make it back"* later in other areas (B3). They were confident that, over the course of three years, outcomes would follow, if given time for the project to bed in, and for the front line staff to establish relationships with the target population. This highlights the importance of individual autonomy in how team managers responded to incentives and, in turn, the impact this had on how the incentives were articulated in terms of their effect on service delivery.

6.4.3. Data monitoring and performance management

In these outcomes-based contracts, there were no process measures so providers had considerable freedom and flexibility over the structure of their service delivery team. Here, the agents (senior and middle managers) were responsible for data monitoring and performance management. The case study organisations differed in their approaches to internal monitoring and management which highlight the importance of examining how incentives are communicated through an organisation's hierarchy to understand the impact of incentives during the implementation process.

In Provider A, team managers were responsible for data monitoring and performance management. One team manager felt that this took '*some headache off the [front line] staff*' (A4) by working to evidence outcomes. However, this was challenging as they felt that their front line staff often failed to prioritise outcomes, and pointed to a conflict between doing good work and the practicality of what needed to be evidenced.

> *"It's all well and good that you've worked for over a year and that individual has transformed, and you can write an amazing case study, but actually, I haven't got that piece of paper to them do the claims form to get the payment." (A4)*

In Provider B, there was a dedicated outcomes officer responsible for data monitoring and performance management. This created an independent in-house administrator who was removed from the managerial staff and the front line staff. This was a distinct role that functioned as a means of creating distance between the actions of front line staff and the actions necessary to collect data to evidence outcomes:

> *"A lot of the time that I was in the office talking to them, talking to the workers when they came back, it was almost like their break time when they came back to the office and they would let off steam about everything… I would always remember and then make a note, and I*

had like my, my spreadsheet of outcome and potential outcomes and using that in collaboration with CHAIN meant that I was constantly looking at things from an outcomes point of view and they were giving me the qualitative information that I could then use to, to inform that." (B10)

6.4.4. Staff structure

In both sites, senior and middle managers focused on quickly recruiting and putting in place a project team, alongside team managers. In Providers A and B, the service delivery teams were assembled within two months of the contract signing. The service delivery teams in both sites were recruited to deliver the intervention on 12-month contracts in the first instance, with the potential for renewal. Most staff had previous work experience in street outreach, in hostels or housing assistance, or in mental health and substance abuse. The staff were drawn from the homelessness sector and brought a wide range of previous experiences that ranged from two to over ten years. There was a distinction between the more and less experienced staff. Staff who had been working in the sector for a long time tended to be more experienced outreach workers. They were excited by the opportunity to experiment with a new mode of service delivery that offered more freedom and flexibility over how front line staff could interact with the client group. While the contracts were only for 12 months in the first instance, staff assumed that there was a strong chance their contracts would be extended because the broader SIB contracts were for three years. This reflected the fact that working contracts in non-profit organisations tend to be short and, often, linked to the length of the grant or block contract available. Staff were also drawn to the projects for the opportunity to follow clients through services that otherwise worked in silos to develop a pathway to sustained accommodation for the client group. Other staff with less experience were attracted the SIBs because they were perceived to be a new and unique way of delivering services to an entrenched client group, and staff were drawn to work in a high-profile project.

The SIB contract was for a period of three years, however the GLA was contracted to continue payments for one of the five outcomes, long term accommodation (payable for 12 and 18 month sustainment), for twelve additional months until October of 2016. These extra 12 months of outcome payments were interpreted differently by each organisation. Provider A interpreted the contract to mean that the service was funded for 36 months, and initiated plans to wind down the service at the 30 month by formally referring clients back to other partner agencies and services when their service ended in October of 2015. At the request of commissioners, this site agreed to keep one staff

member and one volunteer on the project for an additional five months after the project ended in October of 2015.

On the other hand, Provider B thought it was required to run the service for the full three years and that the wind-down should only be initiated in the final month of the project. They believed that the presence of some paid outcomes for a fourth year allowed them to maintain a reduced project team of four front line workers and one team manager to continue services for a reduced group of individuals until October of 2016. This was intended to ensure some continued support for 12 months after the client group had been referred back into conventionally funded services, as necessary. In this wind-down phase, there was some evidence that front line staff received explicit instructions from their managers to select and support those group members that could still generate payments through sustained accommodation in the year after the contract ended as they winnowed down their active group. Front line staff could keep one to two additional clients who would otherwise struggle under conventional services alone, to smooth the withdrawal process. This selection process began in the final two months of the intervention and was specific to the wind down in year 3 as Provider B could only keep those clients who were eligible for accommodation payments for year 4, this is the point when they pared down the group from 415 to 140 individuals.

6.4.5. Use of unpaid labour

There was a substantial difference in the use of unpaid labour that resulted from differences in staff structure between the two providers. Interviews with volunteers in Provider A revealed that a great deal of service delivery was handled by peer support workers and volunteers. Managers reported that the volunteers shouldered a larger share of responsibility for less complex clients. However, interviews suggest that the peer support volunteers may have shouldered a larger burden of the case load than reported. These volunteers had complex histories of drug and/or alcohol abuse and reported using their own personal histories of homelessness and substance abuse to support the client group. This reflects Provider A's use of a 'Navigator' role where the full time front line staff were expected to do higher level work such as liaising with the local council, housing or benefits tribunals, and referring clients to the necessary services, while daily support for their straightforward cases was allocated to support workers or volunteers.

At Provider B, front line staff were responsible for all contacts and interactions with the client group. The use of volunteers was very limited, but included accompanying a stable client to see the GP,

attending routine jobcentre appointments, or joining a lead worker on a home visit as part of safety protocol because front line staff were not to visit clients alone.

6.5. Conclusion

This chapter provided an examination of the senior leadership's interpretation and prioritisation of the incentives embedded in the SIB contract and how they were communicated through the organisation's hierarchy and implemented by the team managers. This chapter explored the impact of the outcomes-based SIB contract on the agency relationship, particularly with attention to the impact of new principals on the priorities of senior and team managers. The high-powered articulation of incentives affected how middle- and team managers saw their roles. This highlighted the inherent difficulties in contracting on outcomes alone, given the difficulties implicit in public services delivery where there are multiple principals with potentially divergent interests that can change the agency relationship.

This chapter found that the introduction of new principals, particularly in the form of social investors, influenced senior and middle managers in both organisations who felt it was important to demonstrate a more business-minded approach. The strategic value placed on the direct financial incentives for the organisations and importance of successful SIB implementation were strongly communicated to team managers and influenced their approach to service delivery, staff size, and personal budgets allotted to the client group. There was evidence that senior and middle managers at Provider A placed overt pressure on their front-line staff to generate outcomes-related payments that was not found in Provider B. There was a stronger focus on mitigating financial risk by pushing team managers in Provider A to strongly link client outcomes to financial rewards. In Provider B, it appeared that the contractual structure (of the SPV) was a factor that mitigated the financial risk to the organisation, whose managers felt that the project's success was less important than ensuring that the intervention remained client-focused. This was perhaps because the marginal financial effect on Provider B was smaller for three reasons: because the senior managers saw it as a pilot, proof of concept regarding the use of SIBs in the homelessness sector, it was a much larger organisation, and the SPV shielded the organisation from financial risk. It should be noted that the SPV was a contributing factor in that it financially insulated Provider B's wider organisation from the financial risk of failure but there were other important factors that contributed to the differences in how incentives were communicated through the organisation, namely Provider B's larger size, role in the homelessness sector and greater financial stability. This chapter provided evidence that senior managers' perceptions of risk and reward were communicated through their respective organisations

and were important factors in determining how team managers prioritised and implemented the SIBs. The next chapter will explore the impact of these findings on front line staff and their behaviour.

7. Front line staff experiences

This chapter explores the impact of the incentives embedded in the SIB contract on the behaviour of front line staff. The analysis of senior and team managers' responses to incentives found in Chapter 6 (Managerial experiences) highlighted the implications of outcomes-based contracting for the agency relationship, staff structure, task allocation and service delivery. This chapter builds on those findings by considering how front line staff in the two provider organisations responded to the incentives in the SIB contract and how, and in what ways, it affected service delivery with the client group.

In the case studies, the success of the projects relied on front line staff to deliver bespoke services to a predefined group of individuals. There were no financial incentives for front line staff based on their performance. Team managers and front line staff received no monetary rewards linked to outcomes generation; staff received fixed salaries and were hired on twelve month contracts, with the possibility of contract renewal (not linked to their capacity to generate outcomes-related SIB payments). It was of interest to this thesis to consider how the indirect financial incentives in the SIBs were communicated and operationalised in a setting where no staff remuneration was linked to outcome payments.

As outlined in Chapter 2 (Theoretical background), incentives have the potential to affect the agency relationship, particularly when there exist information asymmetries. As outlined in the framework for analysis and established in Chapter 6, the SIB's approach presented managers with a range of potential actions to encourage front line staff to meet outcomes, for example, through greater performance management or managerial pressures. This chapter draws on interview data to understand how front line staff responded to the incentives in the SIB contract as communicated by managers.

This chapter argues that at the micro-level of the organisation, the introduction of incentives was more complex than the standard neo-classical economic view of agents as rational actors who will respond to incentives in a predictable way. Front line provider behaviour varied due to different preferences regarding the SIB outcomes, their views on client needs, and the way that managers communicated the importance of meeting outcomes and staff structure. While the SIB was well received by staff who were more focused on meeting outcomes, there was the potential for both positive and negative unintended behaviours by front line staff.

The analysis in this chapter is based on data from interviews with front line staff, volunteers, and administrators in the case studies. This chapter explores the impact of incentives on front line staff's attitudes toward outcome targets, and the selection of, and relationships formed with, intended beneficiaries. First, the chapter examines whether front line staff supported the SIB's outcomes and understood the financial risk faced by their organisations. Second, the analysis turns to front line staff's responses to managerial techniques, and the role of data monitoring and performance management, to understand how front line staff prioritised outcomes. Third, the final section explores the impact of incentives on front line staff behaviour, particularly in how they selected and allocated their time and personalisation resources with the client group.

7.1. Understanding and support for outcomes

In non-profit organisations, agents serve multiple principals and pursue multiple objectives. In the case studies, front line staff were hired to undertake the delivery of services on an outcomes-based basis to the target population on behalf of their non-profit provider employers. Front line staff (agents) were responsible to several principals: their clients, their team managers, the senior leadership team, and their peers and teammates. The presence of multiple principals can change the agency relationship between the agent and their employer (principal) because the agent may choose to pursue the best interests of their clients (e.g. by choosing to pursue what was best for the client instead of what would lead to an outcomes-related payment), rather than those of their employer (e.g. to generate the most outcomes to ensure financial sustainability) who often have mixed interests.

This section assesses how the SIB had the potential to affect the agency relationship between front line staff and their employer to examine what staff understood about the incentivised outcomes, and their understanding of the financial risk their organisation faced.

7.1.1. Support for outcomes

Given the potential for changes to the agency relationship, it was therefore important to consider how front line staff understood, and to what extent, they agreed with the outcomes in use. For the non-profit, it was important that front line staff supported the use of outcomes-based payments and incentives in their work, as it was possible that they could purposely choose to ignore some outcomes, or they could be induced to engage in unintended behaviours if they disagreed with the organisation's approach to meeting certain outcomes. This section describes front line staff's views about the SIB outcomes and whether they felt they were appropriate for the sector. See Chapter 5,

Table 5.2. for an overview of the outcomes and Appendix 5 for a detailed description of the outcomes and how payments were triggered.

Primary outcomes

Outcome 1: Reduction in rough sleeping

Staff in both sites supported the primary outcomes of reducing rough sleeping among the group. All staff interviewed agreed that reducing the number of individuals sleeping rough was a positive outcome and this first SIB outcome provided them with the opportunity to establish long term relationships with the group to enable the transition to settled accommodation.

> *"You got a bit of period where you can make longer lasting change rather than, like you say, there's people just coming in and you just kind of start the process and then they move on somewhere else, so it felt like you would start the process and you could really develop people."* (A9)

> *"I liked the idea of working with a set group for a longer period because many of the people I work with complained that it was quite fatiguing and emotionally tiring to constantly have to tell their same story to a new worker… It was interesting to me to,, to take that feedback and think about the opportunity to build rapport and start working with someone and then continue kind of coordinating their journey through services."* (B11)

Outcome 2: Sustained accommodation

Staff embraced the focus the SIB placed on facilitating a transition into stable accommodation. They were motivated to move clients away from rough sleeping into accommodation. Payments were possible at entry into sustained accommodation, and for remaining in accommodation for 12 and 18 months afterwards. Staff reported that they aimed to first move people away from the street into housing or hostels, and second to bypass conventional routes to housing homeless individuals because they were now able to fund deposits in the private rented sector.

For front line staff, it was important that they felt they could develop pathways for care and reintegration that they considered reflective of the best interests of the individuals in the client group over the three years of the intervention. This was an important enabling factor that allowed them the freedom and confidence to experiment with different approaches to service delivery because they had the time and resources necessary if their clients could not sustain accommodation. Moreover,

staff were confident that they would be supported to advocate for clients when issues arose with local councils and housing or benefits-related tribunals.

> *"We would pay deposits on private rental flats for people that needed it, and we would have, we were told we had the money to do that."* (A11)

> *"The chosen outcomes, I guess, needed to be something that would be generally beneficial to people and it would [be] an indication that other parts of their lives were progressing well. So, the idea of someone sustaining their own accommodation, having kind of moved out of the sector, and incentivising that, because that seemed to be beneficial to the people who'd be using the service."* (B11)

Front line staff felt that the focus on outcomes enabled experimentation that would otherwise be risky or unrealistic under conventionally funded services in the sector:

> *"I'd definitely say there was probably more positive risk-taking than maybe a conventional other team would take. I'm a manager of a hostel now - and we certainly probably have a more stringent process of assessing people that are going to go into their own accommodation. But I guess the difference is that we had … we could put in a lot more support around the tenancy than perhaps other people could, because we did, you know, our nine to five job was just working with all these people, so if we got them a flat, we could go and see them."* (A13)

Outcome 3: Repatriation to country of origin

There was some resistance to carrying out the 'Reconnections' outcome where non-UK citizens were repatriated to their country of origin. Some staff expressed ambivalence about this outcome target, and reported that in the first instance, they were willing to explore options for the individual to stay in the UK particularly because many of the non-UK nationals were capable of, and eager to take on paid work once their accommodation needs were met.

> *"I was really very worried about this and how, as well, [sic] the project, and if there would be any pressure for that, for those reconnections, but I think generally we've been put in a situation like, you know, person-centred and let's try this to help this individual as much as we can. Let's try to find a route for him for how to place here and if it's not possible, then we'll see what can happen anywhere else."* (B4)

> *"I remember especially the Reconnection clients, some have been here for years and they're never going to go back. So, we shifted the focus and said, they don't have to be reconnected. They can be finding work here and they can be living in accommodation. And there're some results we got that way because that was a better option for the client."* (A3, manager)

In cases where the first efforts to house non-UK clients were not successful, or broke down, staff in both sites supported the repatriation of their clients to their home country where feasible.

> *"Initially you'd feel Reconnection was the best option. However, the client, you know, did say, well, I'd like to stay here. You know, I've been here for six years. Let's look at accommodation and look at meaningful occupation. Things that you'd want to do. And initially it went well. And as [manager] said, once that broke down, it's Reconnection."* (A6)

This outcome remained challenging for staff and was exacerbated by changes to UK welfare policies under the Coalition government (2010-2015) that made it more difficult for group members from Eastern Europe to access housing benefits in the second and third year of the program. This limited the options available to place group members into housing in either the local authority-funded or private rented sector, or to link them to support to find work. Following these changes, some front line staff felt that their clients would fare better in their home country than to continue living on the street without recourse to public funds or support. In a small number of cases where front line staff felt clients could not be repatriated to their home countries in good conscience, Provider B provided support for their clients' asylum claims, with one of the subcontracted providers providing immigration law support.

Secondary outcomes

Staff felt that the secondary outcomes for education, volunteering or employment and reduced use of A&E services reflected their own positive expectations for the group, independent of the SIB.

Outcome 4: Education, volunteering, or employment (part and full time)

Staff suggested that the outcomes were set too high for their client group. Staff in Providers A and B felt that better measures of employment, training, and health care use could have been used. For members of the group that were willing and able to undertake work or education and training, staff felt the NVQ target was too ambitious and noted that these clients were more interested in seeking out gainful employment. They suggested that lower targets such as the completion of an

apprenticeship were more appropriate to the group. They reported that they continued to facilitate training (e.g. building courses) that did not generate outcomes-related payments but were more appropriate to the needs of their clients. They said it could be discouraging to know that there were no paid outcomes or recognition for the hard work required to get clients that into training courses.

> *"If you're looking at [a situation] maybe where lots of people who've got no skills, haven't worked for numbers of years, then the employment and education needed to be softer."* (A9)

> *"We don't get a payment for it, so yes, that's just an example of where the metric's not quite right, so, were we not just doing what we think is best for the client, and doing what's best for our outcomes, we would maybe be pushing them into these slightly odd sectors, training courses that aren't in their best interests, computer courses they don't need, all these kind of things, which wouldn't benefit them, but might just get us a few quid."* (B3, manager)

Outcome 5: Health

There was limited support for the health outcome of a reduction in admissions to A&E services compared to a historic baseline of the number of unplanned A&E admissions per year for the cohort. Measuring the health outcome was more complex as it became impossible for the GLA to access the data required from the HSCIC (now NHS Digital) to evidence whether there was a reduction in the use of unplanned A&E admissions among the group (see Chapter 5, Section 5.3.3, Outcome 5 for further details).

Instead, staff felt that a health outcome should have accounted for the successful completion of an alcohol or substance misuse program given the complex needs of homeless people. In both sites, staff reported that clients received support and assistance for substance abuse services.

> *"They seem to have set the bar in a really strange place with [education and training targets] and also with the lack of any sort of recognition for any substance misuse progress at all."* (B7)

The introduction of outcomes-based rewards via indirect incentives on the organisation was positively received by managers and front line staff who felt that the outcomes-focused approach allowed them greater freedom and autonomy in working with their client population. Front line staff felt the SIB outcomes were beneficial for the target population, and allowed workers to provide ongoing support

for individuals, instead of passing clients between agencies. Staff felt that such improvements would not have been possible without the operational freedom and flexibility that SIB financing entailed because conventionally funded services (e.g. block contracts) in this sector (rough sleeping and housing transitions) tended to operate in silos, making it difficult, if not impossible, to follow up with clients once they were referred to other services or boroughs. Unlike conventionally funded projects, the SIB enabled a cross-borough, London-wide approach that allowed staff 'navigators' to deliver highly personalised services and assistance.

7.2. Prioritisation and communication of outcomes

This section explores how front line staff prioritised incentives, and to what extent they pursued SIB outcomes in their work. By examining how front line staff responded to managerial techniques and the role of data monitoring and performance management in their work, it is possible to build a better understanding as to how incentives were communicated through an organisational hierarchy.

7.2.1. Response to management technique and outcomes

Given the potential for changes in the agency relationship, it was important to consider how team managers encouraged front line staff to pursue SIB goals and to what degree those reasons resonated with front line staff. This is of interest to understanding how, and to what extent, front line staff valued and prioritised outcomes achievement.

In both organisations, team managers gave front line staff the freedom and autonomy to meet outcomes through creative methods rather than applying direct financial incentives or process measures as proxies for progress towards outcomes. This reflects each organisation's choice to embrace the outcomes-based approach by not introducing intermediate process measures to control for front line staff's behaviour that could not be fully observed. In both organisations, front line staff reported that there was a supportive environment, high levels of autonomy, and the opportunity to be flexible and creative in their approach to service delivery. An important theme that emerged from the data was the importance of managers' trust in the capacity of the front line staff to be autonomous and confident in their work.

Staff at Provider A described themselves as entrepreneurial and outcomes-focused. They did not modify their responses with reflections on the potential of incentives to lead to unintended behaviours. Front line staff at this provider were supportive of the outcomes-based approach to funding their work and described themselves as very target-driven and outcomes oriented.

> *"I was driven to do it is because I kind of like to work towards outcomes. I think that in itself is quite rewarding, when you have a sort of like structure to work towards then you can persist to really, not that you wouldn't go onto support a client but I think it's quite an incentive when it comes to quite a challenging chaotic [person]"* (A8)

One front line staff member who was with the team throughout the first year of operation felt that Provider A's managerial staff should have focused more on specifying organisational goals and translating that down to individual actions. This informant suggested that the SIB team would have been more successful had they set out firmer targets and guidelines to capture staff's willingness to seek outcomes. This reflected the organisation's choice to select staff, who like their managers, were focused on achieving outcomes:

> *"We were never even set targets, you know, which I think's a real, again, you know, you could easily have internal targets to work towards, which would have, you do it as part of the strategy I think, like, this is where we need to be at the end of this quarter"* (A11)

At Provider B, staff reported they had a strong rapport with managers who were empathetic about the clients' issues, and supportive when troubleshooting was required. Staff did not feel that they were pushed to link their efforts with clients to the potential outcomes-related payments that could be garnered from each client. Front line staff were consistent in reporting that they had autonomy over their decisions as to how, and who, their time was spent with.

> *"I wasn't very happy at the beginning, because when you hear payment by result[s], you think that you need to do certain things with the clients, so almost like the clients are second. You don't put the clients first. You put the results first and then you work with the clients just to achieve those results, regardless what the clients need. But the most important thing in that team was that I'd been told, and we'd all been told, you work with the client, and you look at their needs and not necessarily at thinking I need to get results so I'm going to push the clients to accommodation, when I know the person won't sustain that accommodation."* (B5)

Front line staff in Provider B felt that they were not pushed to achieve outcomes. Some reported that their managers instructed them to ignore outcomes and focus instead on providing the service, with the assumption that long term outcomes achievement would follow. Staff reported that their service

delivery model was person- not outcomes-centred. One staff member reported that her line manager directed her to separate the client from finances and to frame her work through what was best for clients rather than on the outcomes.

> *"I was very focused on the targets, aware that I had to work with people but actually after like quite a few times, it was [Manager 1] specifically, and I was really grateful that she sort of said this, you know. [Manager 1] kind of kept saying, oh no, no, forget ... this is about people, if the targets come, brilliant, but this is about people. And that was really good, you know. I think they were a good balance in that, you know, [Manager 2]'s aware you need targets, so [Manager 1] is, but it was really good to know they weren't breathing down my neck expecting targets every 30 seconds"* (B9)

Provider B's staff reported very positive relationships with their managers and approved of their approach to outcomes. These positive sentiments seem to flow from the strong sense of confidence that managers at all levels projected about Provider B's capacity to be the best positioned to carry out the intervention. This confidence, particularly in regard to Provider B's choice to take a slow, long-term approach to outcomes, resonated through the organisational hierarchy:

> *"I think it's very much up to [the] organisation, but if the organisation focus[es] just on the payment then it, it won't work so well for them, but if they focus on working with the clients and give their time and know that it is a project and you need to put some work to sustain your accommodation or to sustain your, the outcomes, then yes it will work. It won't work if you're just going to do everything without thinking and, and just rushing things and doing it quickly."* (B6)

For both providers, at times, the outcomes did not serve as a guide for front line staff's decisions. In these cases, front line staff from both organisations provided examples of instances where they opted for the client's needs, over actions that could have generated outcomes-related payments. Most front line staff in Provider B shared examples from their work with clients in support of this assertion.

> *"If I had the option of moving someone into a hostel or into a flat, when actually what they really needed was a supported hostel, and I sort of said at the time, you know, I could put him here and get the outcome but actually he really needs to be there, yeah, right, we'll put him*

there then. You know, forget that, this is [outcomes-based], it has to be what is best for [the client]." (B7)

This was echoed by the staff at Provider B's subcontracted organisations, they reported they experienced no strong pressure to pursue outcomes that they did not deem suitable to the best interests of the group. These staff confirmed that when managers suggested they proceed in a certain way, they did not hesitate to push back and assert their stewardship over their client cases and reported a strong sense of confidence in saying they knew what was right for their clients.

7.2.2. Understanding of financial risk

It is important to consider front line staff's understanding about the financial risks that each non-profit faced due to the SIB. If senior and team managers chose to communicate the importance of outcomes in relation to the organisation's own risk, it was possible that front line staff would interpret this as meaning that their employment was in jeopardy if they did not focus on generating outcomes-related payments. This could affect the agency relationship where front line staff prioritised outcomes payments for the organisation, over the needs of their clients, or working effectively to support their teammates.

There was an openness in both organisations about the potential financial ramifications of success and failure for each non-profit. In both organisations, staff expressed a clear understanding that payments for outcomes were the source of all the project's revenue but they articulated that there was a separation in how they framed their work and how their work was funded. At times, they attributed this separation to clear instructions from their team managers.

"We were not pushed at all by management financially-wise, like you must do it. Because I was allowed to work with clients we knew we were not going to get payments." (B5)

Front line staff in both organisations were aware of the potential conflict of interest in working with clients while seeking outcome payments. Some were explicit in explaining that meeting outcomes was both a source of revenue and a measure of success.

"We understood that we worked, you know, for a payment by results service and that we need to balance the need of the stakeholders. So, whilst saying, you know, that we had to – ultimately, you have to work at the pace of someone that someone's prepared and able to

work at. You're also conscious of the fact that if you don't perform, then the service may not continue, or so, yeah, I think we all felt pressure, we all felt a certain pressure but I quite like that in a way." (B11)

"[Manager name] was quite open and transparent about the, the money and by, the payment by results aspect and, you know, telling us what the bigger figures were, you know, in terms of, I suppose, getting someone into a private rented tenancy or something like that, and then sustaining it and stuff like that. That was a higher payment than, for example, sustaining someone in, in the hostel that they were already in… I don't think it was ever, you know, the money side of it was ever hidden. I think it was quite open and I think it was quite… in a way, I think it worked well because it, it was a target that people wanted to get. People wanted to obviously get the higher numbers, and it felt quite satisfying as a worker to, to gain, not obviously personally gain money, but to gain money for your team, because we were being measured on our success in that way." (A13)

Staff at Provider A were often able to state the monetary reward associated with outcomes. For example, one staff member was interviewed over a year after leaving the team, and when asked about their knowledge of the financial reward associated with the repatriation outcome, the interview subject said: "*I still know. Reconnection is £X*" (A6). While front line workers were very clear about the financial impact of achieving outcomes to the organisation, there was an effort to shield the volunteers and support workers in Provider A from the reasons why outcomes were important to the longevity of the program:

"I might not have been party to that to be fair, because I was just a lowly support worker so [laughs], but as far as I was concerned, I was kept, I didn't really, to be honest I didn't really think about it. I was thinking more about having access, of money, to help the clients as opposed to the other way around, if you see what I mean." (A12)

By contrast, staff in Provider B were aware that of financial figures associated with outcomes, but demonstrated less clarity over the precise amounts. There was no evidence from interviews that financial figures were communicated to staff with the intent of reinforcing how specific actions with clients would generate money for the organisation through outcomes-related payments.

"You just do what best for clients and you try, and if you know that it's working, you're just kind of supporting them as, as we will usually do, and we were not thinking how much money we can get for them, for that. Obviously, we all got a list and we knew that that's how much we got for accommodation, but to be honest with you, I don't even remember how much we can get." (B6)

"…even if I'd had internalised all those figures, it wouldn't have made any difference to the way I was working anyway. So, I didn't, because I was, I was trying to get outcomes for whoever I could anyway, the money was more of a side issue." (B8)

In both sites, frontline staff's perceptions of outcomes and organisational priorities reflected how managers communicated about outcomes, particularly about financial risk. For example, front line staff often echoed the language used by managers. This suggested that the use of strong managerial language at the macro- and meso-level might have had an impact on front line staff behaviours in how success was framed, seen in the use of language around 'easy wins' and their eagerness to achieve outcomes in Provider A. By contrast, in Provider B, staff were supportive of the end goals set out through the outcomes but were cautious about the potential pitfalls of an outcomes based approach to helping clients.

7.2.3. Monitoring of outcomes and performance management

Front line staff in both case studies were asked about their working relationships with managers to understand how performance was measured and monitored, relative to the incentives driven by the SIB. It is helpful to draw out the distinction between external and internal monitoring. Here monitoring refers to internal monitoring practices, unlike in Chapter 6 (Managerial experiences), where external monitoring referred to the introduction of different governance relationships related to the SIB (with the exception of Section 6.4.3. which also referred to internal monitoring). Internal monitoring is of interest to this study to understand how providers behaved in response to top-down outcomes incentives and it is helpful to first establish how staff were monitored and how the front line staff's performance was measured.

Performance management of team

In both providers, there were monthly team meetings to discuss the progress in meeting outcomes and to share approaches for working with clients. Team meetings were a way to monitor and measure progress towards outcomes and to share best practice among front line staff.

The Chief Executive in Provider A joined the team meetings on a quarterly basis, which team managers described as: *"[Chief executive] would come to our team meeting so, you know, put a bit of pressure there"* (A5). The team meetings in Provider A were used to focus the team's attention on organisational priorities.

There was no evidence that the team meetings were used to promote the profile and importance of the SIB by senior leadership in Provider B as they were in Provider A. In Provider B's monthly team meetings, one staff member described the team meetings and focus on monitoring style as follows:

> *"They'd start off with the figures of how we'd done that month as, as opposed to the target. Or if we've met the target. Or, not met the target. Or exceeded it. And sometimes there'd be a comparison with how [Provider A] had done… then the rest of the team meeting would be about, there'd be various sections to it. There'd be any practical issues or new housing projects that [team manager's name] or someone had identified that we could refer clients to or new services that we could use. And then there'd be some sort of good news stories or, or if anyone wanted to raise any good news stories. Or, or alternatively, any clients of concern that people wanted to discuss with the team, or swap clients with another worker or something, if it wasn't working out."* (B8)

In Provider B, team meetings were an opportunity to highlight achievements, often framed in contrast to Provider A's performance, highlighting a focus on measuring team success relative to external monitoring targets. There were also visual monitoring tools used to track outcomes achievement for the team:

> *"We had a board for example in our room and we'd put the outcomes for the quarter on that and, you know, when they saw their client's name, you know, it kind of, I think they were really like, it was like a little bit of a, like a competition and they were like, you know, obviously happy for the client but, you know, it definitely gave like an extra impetus to things."* (B10)

Monitoring of individual outcomes

At the individual level, there were a wider range of monitoring and measurement tools used to track or influence performance. These mechanisms influenced provider behaviour and illustrate how staff responded to the SIB's indirect financial incentives. This provides insights into how they approached their work and managed their relationships with the wider organisation and managerial structure. In

Provider A, front line staff had individual meetings with managers every four to six weeks to discuss their client case load and to provide feedback on their experiences. A few workers reported that it was difficult to go through their full caseloads during this time:

> *"We bring up people who you're struggling to work with. I think you have, we have supervision occasionally, though obviously way too many people to go through. There wasn't a lot of oversight really in terms of how you were going to do what you were doing, and no-one really knew where you were."* (A11)

In this provider, the managers did not have a caseload of clients and were responsible for managing their teams alongside the administrative duties related to evidencing outcomes and auditing team performance (aided by a part-time administrator in year one). Here, staff were responsible for a large group of clients and the administrative record keeping related to the monitoring of outcomes. In this case study, staff were responsible for collating and evidencing outcomes achievement in the CHAIN database and for uploading all supplemental documentary evidence on a quarterly basis. Front line staff at Provider A linked their efforts with the client group closely to the outcomes schedule as a result. One staff member described the data monitoring as follows:

> *"It was an open conversation and we had to put our data on, like, a spreadsheet each month and we were able to kind of vaguely keep a track on how we were doing."* (A13)

In the second year of the intervention, the team manager asked front line staff to select a 'top ten', who were ten individuals each month who were likely to generate outcomes that quarter. This was intended to focus front line staff's attention on goals that were achievable to generate outcomes payments. Each month, front line staff selected ten individuals they felt could generate an outcome and brought it to their team managers. These names were placed on a wall in the team office and staff would present the results of their 'top ten' at the monthly team meeting. A team manager described the 'top tens' as a way of:

> *"…Really channelling down and saying, "Okay, in this quarter, in an ideal world, what would we like to achieve and how is that connected to an outcome?" … it's not always necessarily possible, but it's what they would like to focus towards…That's worked really well. I think I was a bit hesitant, because that's quite business minded, isn't it? But thankfully it's nice, it's brought a healthy level of competition and also just a sense of achievement for themselves*

that they get to tick off and so they've become even more aware of what these outcomes are and it's become a team effort." (A4, manager).

There were, however, no real or perceived sanctions if 'top ten' nominees failed to generate outcomes.

> *"I guess having the top ten up on the wall has been… at first I thought it was a competition, everybody felt it was a competition really and we didn't really like it, but really we've all got to the stage now, our top ten can change from one week to another it all depends, because your situation with your client may change. The team are very supportive and because we change clients and staff have moved and we restructure the team each year, each year has been structured differently and we've all supported each other through it."* (A7)

One front line staff member felt that this focus on the 'top ten' and generating outcomes payments were the result of the senior leadership's demands on the team managers, saying "*It's been quite a change, I guess since the new management structure, but that's kind of the managers behind my manager saying,* "*We need to try and focus on the top ten, try and work on these outcomes" and that's what we're trying to do.""* (A7). This suggests that front line staff were aware that senior managers were a driving force behind the organisational language, and the top-down managerial pressure associated with the SIB in Provider A.

Staff in Provider B had monthly individual management meetings with a team manager where they discussed their group and each client's status. There was a designated outcomes officer responsible for collecting the data required for the team to evidence outcomes. This outcomes officer was responsible for monitoring team outcomes, measuring performance, and collating the evidence needed to invoice the commissioner for outcomes on a quarterly basis. The outcomes officer's role contributed to a separation between the work needed to serve the team's mission of helping the client group, and the surveillance needed to monitor outcomes to evidence and claim quarterly payments from the commissioner.

> *"The workers knew that they needed to get somebody into accommodation but they don't really have to worry about what evidence they need because they always just come and ask me. So I was like the reference in that so I would have like the reference of like what the evidential requirements of what, what was required and then they would never need to look, they would just ask me."* (B10)

There was no overt evidence from interviews at Provider B about the use of any specific managerial techniques to focus front line staff on outcomes achievement or efforts that encouraged staff to link clients to payments on a quarterly basis during the three years of the planned intervention. Instead, the managers and outcomes officer were responsible for tracking outcomes payments and ensuring financial sustainability while front line staff carried on with their work. One administrator said their role was to forecast outcomes payments that would be achieved for the client group throughout the duration of the SIB contract to ensure that the project was sustainable at current staffing levels for the future.

> *"I did like a forecasting document where I would look at what we're expecting to achieve in the next quarter… We always had like an estimate of what we were going to achieve based on what we had now because obviously, it depended on how many people you had getting into accommodation as to how many would then have the potential to sustain like 12 months."* (B10)

There were efforts in Provider B to monitor the allocation of time and resources on the client group as staff submitted monthly expenses reports on how their client personalisation budgets were used. In one case, a front line staff member reported that their team manager noticed a disproportionate allocation of resources to one of her thirty-odd group members and urged the front line worker to consider reallocating their time with clients in a more equitable way:

> *"I'd spent more on that month, not significantly more, but more than the others. And, [Manager] quite rightly pointed out, you know, this person gets every benefit going, she's probably earning month for month what we are, you know, and yet actually, so no, you know, it's not fair that she's had money thrown at her for years and she's still not necessarily progressing. She's quite ungrateful in her attitude, this woman. She's just very draining, you know, and actually, you can respond to that sometimes by [saying] like yeah, come on then, let's have a cup of coffee, just to get you to stop calling me every five minutes. It was just about being mindful of the balance I was spending with her as opposed to everyone else, like just because she's constantly demanding. It was just highlighting the fact that maybe I didn't need to respond in that way. So it wasn't about, it wasn't that [manager] begrudged the money, but she was questioning why everyone else was [the same] rate, was this person that much more." (*B7)

This indicated that managers in Provider B did not communicate financial figures and risk to staff with the intent of reinforcing how specific actions with clients would generate money for the organisation through outcomes payments on a quarterly basis. Instead the managers and administrators assumed that responsibility so front line staff could focus on clients.

7.3. Impact of incentives on front line provider behavior

This section further explores the implications of the SIB incentives on front line staff behaviour. This is explored through the following themes that emerged from analysis of the interview data: flexibility, unintended behaviours, creaming or parking, and gaming and moral dilemmas.

7.3.1. Flexibility

The SIB enabled greater freedom and flexibility in the delivery of services to the client group. However, flexibility is not inherent to an incentives-based approach to commissioning services. In the case studies, the outcomes-based nature of the SIB contract enabled greater flexibility due to the absence of process measures. Managers played an important role in framing what was, or was not, possible within an outcomes-based contract and held an important role in the implementation process and thereby how staff behaved. Under the SIBs, front line staff members praised the flexibility and creativity unleashed by working in outcomes-based contracts. Without the constraints of processes, institutional silos, or cross-borough bureaucracy, staff were more able to work freely and deliver services to improve the circumstances of their clients for the three years (plus payment tail) of the SIB contract. In both sites, staff reported that the availability of funds, the freedom to allocate their time, and autonomy on how to best serve the interests of the client group was a key contributing factor to the perceived successes of both SIB sites.

Many front line staff welcomed the opportunity to build multiyear relationships with clients and work outside the constraints of conventional front line work. Staff in both organisations felt the SIB represented an opportunity for them to take their clients out of the cycle of conventional homelessness services and so they used a wide range of traditional outreach mechanisms to place clients into accommodation. They also assumed stewardship over clients in a way that was not possible under conventionally-commissioned services to ensure that their clients had access to social welfare benefits that enabled their re-integration into society.

"I'm an extra support worker for you. Extra, which means whenever, if you're going to move somewhere, or you're going to change location, I'm going to be there still, even if you're going to [move]. Just for you to have someone all the time, so we're going to work on your goals and things like that. So, I was trying to let them know that it's not around either organisation which they are working or they are now attending, or it's not about the borough where they are. It's about them themselves for three years." (B4)

"You can make longer lasting change rather than, like you say, there's people just coming in and you just kind of start the process and then they move on somewhere else so it felt like you would start the process and you could really develop people." (A9)

"It's a bit like a social worker role, where you're commissioning work, but you're working with a client." (A7)

Staff were supportive of the flexibility that the SIB allowed because it gave them the freedom to fully engage with clients on an ad hoc basis.

"That's something that's really good for SIB, the managers, but also the structure of the whole team. It gives us the freedom that actually if someone needs an entire day focusing on them then that's what we can do, you know, and that's something that I, I really enjoy that." (B7)

"The main thing is just making sure that they're getting the right service where they're linked into a treatment centre or a day [centre], or that sort of thing, but it could mean other things, like at times, I've had to go to court, [to] deal with council tax issues" (A17)

This freedom to take risks was at times unsuccessful but staff in both sites said that the venture allowed them to work constructively with clients who failed at sustaining outcomes for accommodation. When clients failed to remain in their accommodation, staff were then able to point to previous failures to demonstrate why it was important to take advantage of their selection into the SIB group as a time-limited opportunity to engage with other services, such as drug or alcohol treatment or rehabilitation services, before further attempts to secure housing were made.

"Sometimes it's good to just go through the motions and try and get people a flat and give them a chance and put loads of support in around it, and then if it fails, which at times it's going to, you've kind of got a bit of leverage to then work with that person again from a different perspective and say, "Look, we tried this before, we put in all this support, it didn't work." Therefore, this time we're going to need to really address with the people that didn't work, you know, "Maybe it's your drinking, maybe it's your budgeting or your this and that, and then we're going to have to really conquer those before we think about you living independently again, because it didn't work before." We were quite privileged in that sense that we could actually try that with people and give them an opportunity that they'd forever been asking for, and always been turned down for. It was quite liberating, I suppose, to be able to at least try." (A13)

Staff said the SIB's financial structure allowed them to set up opportunities to foster confidence and self-esteem for the client group to ease their reintegration into society. Both case studies provided examples where SIB funding was used to invest in self-esteem building activities that were not possible with conventional financing, such as buying new clothing for job interviews, providing swimming lessons, or bringing them to have lunch in a chain sandwich shop or to meet for a beverage at a coffee house. Staff described these activities as important to the wellbeing and integration of their clients who were often very aware that they did not 'belong' in public spaces. The SIB funding was important to normalising their participation in everyday activities the client group otherwise felt excluded from.

"It was going to improve their self-esteem, their motivation to do things like maybe even on their own, diet, fitness, you know so there was loads of things, different things that all end up [helping] with their wellbeing." (A9)

"Even taking some of my clients for a coffee in a Starbucks, for example, blew their mind because that happens all day every day in London to, "normal people," so for them to be in a position where they're sitting in Starbucks having a coffee with all these people, it was so interesting because they just, it was just like, it wasn't a natural place for them to be… I definitely feel that their self-esteem was boosted in doing that" (A13)

> *"I wanted to help them to see that their lifestyle can be different, that you can paint a different picture for yourself and that a lot of it does kind of count towards your environment around you."* (B7)

These instances above applied mainly to clients with less entrenched problems who were capable of sustaining accommodation, pursuing employment or training, or were more 'job-ready' than those with severe mental health or substance abuse problems. However, both sites reported that the SIB allowed them to fund alcohol or drug treatment and rehabilitation, or to try new approaches to engage clients who had not benefited from conventional programming so resources were not solely focused on the 'easy wins.' One staff member described the benefits of the SIB's freedom, positive relationship with their team manager, and their autonomy in deciding what was the best course of action, with a client example:

> *"So, we sorted out getting a clinical psychologist to come on outreach shift with me to meet with the guy and run a report on his, mental health and how it impacted on his ability to access services which turned out to be priceless going forward… So the approach with him was well, this guy's been rough sleeping his whole life and he's really poorly and we need to try something different. So I think having that ability to, to work in that way and again having managers who, yeah, would trust me when I came in and said, "I'd, I'd like to try this," and they would be like, "Okay. It sounds like, from what you say, that that is useful." And then that helped [to] no end. I mean he's been in some flat now for nearly 3 years, and he hadn't had any accommodation prior to that to speak of for 20-odd years."* (A13)

While staff in both case studies reported using similar techniques and methods to work toward the SIB outcomes, it is important to also note that staff quoted above from Provider B often prefaced their remarks with comments about how the outcomes were just a guide, which reflects findings presented above in Section 7.2. Their language about working with clients reflected how Provider B's managers described the SIB as a way of funding services to the whole group for three years, regardless of how many outcomes they generated.

7.3.2. Unintended behaviours or consequences

In both case studies, front line staff were asked to reflect on their experiences with the client group, relationships with management, and the actions they took in response to extrinsic organisational rewards. It is interesting to note that front line staff reported a wide range of responses to the SIB

outcomes that can be categorised into different types of unintended behaviours that range from fostering too much dependence to meet outcomes to having clients take advantage of their eagerness to help.

One front line staff member provided an example of a difficult situation where s/he provided a very high degree of support for one client, who would not have been able to live independently without her/his support. This front line staff member was conflicted because the support s/he provided was in the best interests of the client, but s/he was conscious of fostering an unsustainable level of dependency that could not be sustained without the SIB.

> *"He actually did better in the flat for a while [because], he was on his own. He'd wash up, he'd, you know, make himself food. He wouldn't, he didn't change his bed sheets for like a year or something. But this meant he wasn't really ready for a flat. He wouldn't, you know, he couldn't really manage any bills. So I did all the bills, sorted it all out, all the housing benefits. He couldn't really cope with that side of things. But in some ways he did better in the flat than a hostel. I mean, the hostels wouldn't have him any longer, that's the thing as well, because he wouldn't engage with any support workers. He wouldn't, he was not interested in get, he can't get a job because of his mental health. Was not interested in doing any voluntary work. Not interested in doing any key work. Not interested in anything other than staying on his own. So the hostels got fed up with him, you know. Wouldn't pay his service charge. So we got him a flat and he stayed there for two years but, really the SIB was sustaining him in the flat, I have to admit."* (B8)

While the staff member agreed that this client example was an outlier in terms of the intensity of effort and time allocated towards keeping an individual in accommodation, this was not an isolated example from front line staff. In the absence of the SIB, the individual would have remained homeless and another front line staff member suggested that it was better to have housed someone for a set period of time as this prevented costly or chaotic interactions with the state that were not measured: *"there's a lot of peripheral stuff that's not judged that would've come down with regards [to] court costs, prison costs, hospital costs, police costs"* (B9).

Managers in Provider B agreed that the SIB enabled the team to foster too much dependency on them by clients. Several front line workers expressed frustration regarding the degree of dependence that the SIB fostered among the client group. For example, at times clients manipulated their front

line staff member because they knew that they were able to call on them for such a high degree of personal or financial support:

> *"The nature of these individuals we have is that they might come back [to the street] for a little bit, or their version [of a] meal – you might go out, you don't intend to get a cab home but you get a bit too drunk and you get a cab home. Their version of that is "We'll sleep in a doorway." It was almost like, there's your success [gone], there's the thing you're being paid to do and the guy in a year has been seen sleeping out twice; the year before he might've been seen sleeping out 60 times… The other side of it was reducing the overall number of bedded down contacts on our list and that was the one where this guy, and he's lost the tenancy so that bit didn't matter, but it was, "Oh, no, he can't be, he can't get that 'cause that erases that, we won't get paid" - and that increased that individual being [dependent] because, "This is what I've done and you will sort me something else out; you will sort me something else."* (B9)

The benefit of the flexibility described above in Section 7.3.1. was that it allowed front line staff the resources and freedom to provide accommodation in the private rented sector for members of the client group on a previously impossible scale. This allowed staff the freedom to act quickly and house clients at their discretion. Some staff reflected on this process and felt the ready access to funds, and desire to generate outcomes, may have caused them to act hastily, leading to unintended provider behaviour:

> *"At the beginning, some of our colleagues came in and they were so willing to help and give the best possible care to these clients. Sometimes they went in, took someone from the street without a proper assessment – a long chat and long plan. They put them in straight to a hostel let's say for a couple of weeks. Then we spen[t] a lot of money for clients. And then after two weeks, three weeks in the hostel they would realise that the client basically in a way tried to use them - to get things from them without engaging and without doing things. Then after two, three weeks, four weeks when we had a huge bill for the hostel then at the end he just moved out and he went and he was doing his own thing."* (A10).

Across both case studies, front line staff reported that they undertook actions that reflected a outcomes-focused approach to service delivery. In some cases, staff reported that they were guided by the outcomes, which resonated with their own beliefs about the best outcomes for the clients while at other times, it was possible that the presence of outcomes encouraged staff to exert additional efforts to achieve or maintain outcomes for clients in unintended ways.

7.3.3. Creaming or parking

If an agent acts to serve the interests of some principals (such as the investors by maximising profit generation for the organisation) over those of the public commissioner, they might work harder on behalf of some individuals that will maximise revenue in the form of outcome payments. This problem is known as 'creaming' (i.e. choosing to focus on those that are most likely to generate outcomes with minimal effort) or parking (i.e. putting aside difficult cases that are unlikely to generate outcomes payments). Where it arose, it was to the detriment of the service provision to the wider target population.

Some front line staff affirmed that they did seek out clients who were amenable to outcomes achievement in the first year, describing such individuals as 'easy wins.'

> *"In the beginning, it was a lot easier, because we were looking at the easy wins. Now we've got clients which are very difficult to fit into that kind of payment bracket."* (A7)

There was some evidence that front line staff in Provider B did engage in 'creaming' when choosing which group members they would continue to support in the pared-down fourth year[24] of the project. In September of 2016, staff were told that they would only keep clients who were in accommodation for less than 12 months at October of 2015 and a small number of difficult cases to ease their transition back into conventionally funded services. In the fourth year, the active group was reduced from 415 to 140 individuals.

> *"We only really kept on the people that were in accommodation that hadn't continued with their, that hadn't sustained 12 months or we thought had sustained 12 months but were still vulnerable in some ways so we should keep, keep working with them. Like you say that we identified maybe one client for each, each staff member who hadn't achieved an outcome and we couldn't get an outcome in the last year but they were still responding to our support more than any other support, so it would be, it would've been a bit rough to, to, to just cut that off. Which was kind of, you know, a slightly altruistic way of doing it, there's no financial reason*

[24] In the fourth year, from November of 2015 to October of 2016, the contract stated that payments would only be made for sustained accommodation of 12 and 18 months for clients who were in accommodation for less than 12 months in October of 2015. No payments were made for any of the other outcomes after October 2015. See Chapter 5, Section 5.3.4 for further details about Year 4/ the payment tail.

for us to do that and there's outreach teams out there who should be targeting those guys but, yeah, it just seemed like the right thing to do really." (B2, manager)

In Year 4, front line staff also selected one to two clients that they continued to see despite the fact that they would not generate outcomes payments. Managers were supportive of this but felt that they had to draw a line as to how many such clients should continue to receive services given that all clients were to be referred back into conventional services within 12 months. One front line worker described how they chose which client files to close at the end of three years compared to those who received a fourth year of support:

"I had a client who was accommodated in the long term, supported accommodation, linked with the mental health team, engaging really well, taking medication, no relapse for the last year and a half, re-established family connections, you know, family's there so, so he had loads of key workers so everything is kind of gelling to one, one, one place and works well so, you know, I'd close him down. The clients who I wouldn't close down, that I kept open were the one that wasn't, were not keen on working with other services, didn't have good relations, wouldn't talk to other services so I kept somebody who was rough sleeping, or we were never going to get any payments for, but specifically wanted to talk to me only, so I kept him open so that I can still go and see him when the other service[s] needs, you know, assistance." (B5)

There was evidence that front line staff in Provider A were instructed to 'park' more entrenched clients who were unlikely to generate outcomes payments, particularly in the second and third years of operation when staff were assigned new client lists based on outcomes area (i.e. a front line staff member was responsible for all clients in sustained accommodation while another was responsible for repatriations to home country). One front line staff member expressed frustration that they were explicitly told not to work with entrenched clients who would not generate outcomes:

"I think when [Manager 2] came in, [they] kind of changed the angle of how we work. This blind guy for instance, I met him from prison, we met a couple of times from prison, many times from prison, take him to the homeless persons' unit and [manager's name] said, "Look, this is the last time you're going to meet this guy and if he drinks… "So, we warned him, before he comes out, "You must not drink. When we meet you, you must not drink, because you get chaotic and you become violent" and the first thing he done, he went into get a drink, a bottle of vodka. So, I had to say, "Look, I can't work with you today" and I didn't realise it was going

> *to be full stop, that's it, but I was told, "We're not going to get a paid outcome with this guy [FLS name], you're going to have to hand him over to the other services in the borough."* (A7)

By contrast, front line staff in Provider B felt that their clients who were in accommodation and meeting outcome goals were low needs, which freed their time to work with more entrenched individuals.

> *"If it's easy to achieve the outcomes with them, you just achieve the outcomes with them and then you don't need to spend lots of time, what's the point of like somebody that's doing well in their accommodation and you're going to get that 12 months sustained of payment and they only need like a visit a fortnight or a phone call a fortnight or a visit a month? Why would you spend more time with them if you don't need to?"* (B10)

In some cases, the direct financial incentives to the organisation for meeting specific targets led managers to use non-monetary sanctions or rewards on front line staff to motivate them to meet, or prioritise certain targets over the well-being of other, more entrenched members of the SIB cohort. In such cases, there was evidence that front line staff disproportionately allocated their time and effort to ensuring that some individuals generated outcomes-related payments. As a result, they were unable to dedicate time to other cohort members, resulting in a suboptimal allocation of resources and services for the wider target population.

7.3.4. Gaming and moral dilemmas

In a SIB contract, where outcomes-related payments are the only mode of remuneration available, agents may take advantage of asymmetries of information between principals and exaggerate or falsify outcomes data, to meet targets. This problem is known as 'gaming' (i.e. massaging progress towards targets in a performance management scheme to appear more successful than in actuality). It can arise as a mechanism that enables the agent to change their behaviour for personal gain (e.g. to appear very productive and efficient in meeting outcomes), or to shirk their responsibilities (e.g. exert less effort overall once they have generated a fixed amount of money). At other times, 'moral dilemmas' can arise, where front line staff face a conflict of interest between what was best for the client, and what was best for the organisation (i.e. to pursue actions that are not sustainable for the client but will generate an outcomes-related payment in the short term). In practice, this behaviour would be detrimental to the quality and volume of services rendered to the target population.

There was evidence that to gain outcomes for accommodation, Provider A took aggressive actions to procure a house through the private rented sector. This was problematic because they acted as the landlord for this property when housing SIB clients and claimed housing benefit for the clients they placed in the house they rented so were doubly paid. This was because they received an outcomes payment from the public commissioner and the housing benefit payment from the government.

> *"That was, like, temporary accommodation which they got themselves, and put people in and they had people living in that house all together. No, that was just nuts looking back on it, but anyway they got the[m] safe from that point of view and then they claimed housing benefit and got the money and applied that and then they were housing people there temporarily."* (A11)

This organisational decision was sharply criticised by a front line worker at Provider B.

> *"The pressure was put on you know, especially the initial lot you know, "You have to get this many people in flats, you have to do this, you have to do this" - things that organisations like [Provider A], and it's been around a long time, they should've known that wasn't gonna work - you can't – they were taking people with massive problems, taking 'em outta [name of] hostel, stick[ing] 'em in a private rented flat… Just managed very badly in that respect you know, pressuring the staff to fulfil these stats you know, criteria, whatever staff not having as much experience with the confidence maybe to go, "[Expletive], that's not gonna work." … I said, "I'm not doing that, it's a bloody nightmare. Categorically I'm not doing that" I've got the experience and the confidence to say that to all my managers - "To hell with that, I'm not doing it" – I don't know if they had that."* (B9)

To meet employment outcomes, one staff member said they hired group members to do work for other group members:

> *"Maybe I shouldn't, okay, yeah, I guess, one of the things I've found quite easy to do was I would get my more stable clients to do DIY tasks for people that have recently moved into housing and I created employment contract which [Provider A] would pay them, and then that would be an outcome, so you know that's like just a bit of a loophole in the system really, isn't it? … So it would be like going around, put up a pair of curtains or something; here's £30 for*

doing it, side contract, thanks very much, and then you put that as an employment outcome on the chain … so we would just draw up an employment contract and pay him to do it." (A11)

There was evidence that staff falsified records to garner outcomes payments. One front line worker remarked on the ease with which documentation to evidence outcomes could be claimed. This indicated that information asymmetries between providers and commissioners enabled a small number of staff members to describe opportunistic behaviour.

"Respondent: *It, well, it should be difficult, it should have been difficult, it should ... I can't ... you shouldn't be able to turn up and be, like, I want a copy of someone's tenancy who you've not met before, stick it on a database which they probably don't even know they're signed up to, which, which, I mean the breach of data confidentiality in CHAIN never ceases to amaze me. But it was, there was never a problem really, to be honest with you.*

Interviewer: So you never had any issues like getting someone's tenancy if you hadn't met them?

Respondent: *No.*

Interviewer: What kind of, can you give me an example of that?

Respondent: *So if someone was in a care home, they had gone into the care home in between the project officially starting up and I was actually coming in and I just rung up the care home and said, hey, please can I have this and they sent it through to me, it was pretty amazing (laughs)."* (A11)

This was corroborated by front line staff at Provider B who commented on staff flux at the GLA, and how there should have been more attention paid to the monitoring of outcomes and auditing of documents:

"I mean the GLA, the person who started it, we went through about three different managers. The last one didn't know what's going on, we could say lie to them and say anything at the end of the day even if you'd not done it." (B9)

While there was an expectation that non-profit staff in the case study organisations would be altruistic and would act in the best interests of their clients, interviews with staff revealed examples of moral dilemmas they faced between what was best for their clients and what was best for the

organisation. This occurred alongside a few instances of gaming. There was anecdotal evidence from a very small number of informants that suggested that staff did exploit these asymmetries of information to achieve outcomes for a range of different reasons.

7.4. Conclusion

This chapter explored the impact of the incentives embedded in the SIB contract on the agency relationship between front line staff and their team managers and the senior leadership teams in two non-profit case studies. At the micro-level of the organisation, front line provider behaviour varied due to how front line staff approached and prioritised outcomes and the wellbeing of their clients. This was particularly affected by the way that managers communicated the importance of meeting outcomes and staff structure. Overall, the primary outcomes were understood and supported by staff. The relationships between front line staff and managers and how financial risk was communicated, was an important factor in shaping the balance of a client centred or outcomes-centred approaches to service delivery. For front line staff in Provider A, the strong focus from team managers on mitigating financial risk to the organisation manifested itself in evidence of 'creaming' and 'parking'. There was some evidence of gaming through the falsification of documents. These adverse behaviours were likely due to staff's desire to appear productive in generating outcomes payments from commissioners and sharper managerial techniques. By contrast, in Provider B, it appeared that front line staff were not directed by managers to select 'profitable' clients. This chapter found that where staff were more focused on meeting outcomes, the allocation of financial risk was of importance, as the more highly powered the communication of outcomes, the likelier staff were to engage in unintended behaviour, to the potential detriment of other clients in the group.

8. Impact on motivations

8.1. Introduction

The impact of incentives on the motivation of non-profit staff requires greater examination, especially as non-profits take on an increasingly important role in the provision of public services in England. This chapter considers the impact of introducing financial incentives through SIB contracts on the motivations of managers and front line staff. This analysis builds on two main findings from Chapters 6 (Managerial experiences) and 7 (Front line staff experiences). First, the introduction of new actors affected the agency relationships in each non-profit provider. Second, the financial incentives in the SIB contract influenced how managers organised and prioritised the intervention and so affected how front line staff selected and worked with clients, and the degree of autonomy available to do what was best for clients. This chapter expands on those findings by examining the impact of incentives on staff motivation, particularly to examine whether it crowded in or crowded out their intrinsic motivation to do their work.

This chapter argues that the introduction of direct and indirect financial incentives in the case studies was complex and could lead to both crowding in and crowding out of intrinsic motivation. This chapter draws on recent theoretical work that moved away from the dichotomisation of intrinsic and extrinsic motivation in work (Gagné and Deci, 2005) to understand how financial incentives can foster autonomous motivation in some while impeding it in others. This approach to intrinsic motivation considers an individual's sense of autonomy in how they respond to incentives, suggesting that incentives can crowd in an individual's intrinsic motivation where they have an internal locus of causality, so that incentives provide intrinsic task enjoyment or personal meaningfulness that reflects the individual's goals and values (Lohmann et al., 2016). The data from both case studies found that the introduction of incentives was broadly positive. The findings supported existing empirical evidence (presented in Chapter 3, Section 3.4) that strongly suggested there was, first, a continuum of motivation crowding behaviours that varied according to what was incentivised and second, that the success of a p4p initiative is often linked to the degree of autonomy providers have in the implementation and operationalisation of the scheme.

This chapter begins by considering the role of intrinsic motivation for staff in the case studies. It examines why, and to what degree, staff were intrinsically motivated to do their work and the factors that drove them to work in the non-profit sector. Second, this chapter discusses how incentives

crowded in, or crowded out managers and front line staff's motivation and the impact on provider behaviours.

8.2. Intrinsic motivation

The empirical literature suggests that individuals can be intrinsically motivated for two main, and closely related, reasons, because it makes them 'feel good' or because they want to 'do good' for others or serve the public. The intrinsic motivation to do something because it 'feels good' was defined by Deci (1972) as where individuals pursue actions out of enjoyment of the task itself, where they receive no apparent rewards except the act of doing the activity itself. This is often termed 'warm-glow altruism.' In this study, intrinsic motivation was defined as actions an individual undertakes for the enjoyment of the task itself, or out of pro-social or public service motivation to 'do good' (Lohmann et al., 2016, Gagné and Deci, 2005).

This section draws on staff responses in interviews to understand how they articulated their motivations to self-select into the non-profit sector, and how they came to work with the homeless population. This considers how staff described their overall satisfaction and defined success in their roles, and for their clients. This is to understand their values and goals of working in the non-profit sector, and how those contributed to their conceptualisations of successful work. It is worth noting that these findings are derived from interviews held with staff while the SIB was operational so it was not possible to measure what change, if any, occurred in their levels of intrinsic motivation after the introduction of the SIB. Some staff were interviewed after they had left the SIB intervention and were able to comment retrospectively on what they found to be motivating during their time with the intervention.

8.2.1. Motivation to 'feel good'

Staff members in both case studies described their intrinsic motivation as pursuing actions out of their enjoyment of the task itself, where they received no apparent rewards except the act of doing the activity. One front line staff member said that that the act of helping others gave them a positive feeling and described it in the following terms:

> *"I find just the daily challenges satisfying. I love being able to, like, get through a list of things that needs doing, like just, just stuff. I'm obviously deeply disturbed [laughs]. "* (B7)

Front line staff members said working with homeless people was motivating because it was challenging and also rewarding when positive results were achieved. Others cited the enjoyment they derived from the diverse nature of the work.

> *"I just like working with the clients face-to-face and especially [if] they're, like, not [a] fully open book and, you know, that is what motivates me. I want to find out, you know, why is this guy [homeless for] ten years, you know, to me, that's what does it for me. And especially if he manages to find out and things move on and progress well, then you are on this natural high, you know. It is lovely. You can't take away that feeling. No one can. It's just so nice to see somebody, things, like, falling into place."* (B5)

> *"[What's] motivating is I like the clients most of the times. I really like the fact that, because they're adults, they've got their own story and their own personalities, and I get to know them. It's very satisfying working with people and seeing them progress, and move through. I also quite like the drama of it all sometimes and, you know, a lot of the shoutiness [sic] and the incidents and stuff. It's never boring. You know, never a dull day working with homeless people, I don't think." (A13)*

Front line staff framed the rewarding aspects of their work in a range of ways, for example, one front line staff member expressed that it made them feel good to be challenged and that led to personal growth as an individual.

> *"I mean first of all, I find it incredibly challenging, I love a challenge. It's a lesson in patience and, I mean it's helped me develop enormously as a person. I find it incredibly- it's a chance to try and be creative and to build, you know, to put together a different way of trying something, you know, to try different things with people, to listen to people, to try and understand the human experience and to try and work with people around, you know, achieving what they want." (B11)*

8.2.2. Motivation to 'do good'

In both case studies, staff said that working with the homeless was a positive experience that made them feel that they were making a positive contribution to their clients' lives. Staff reported that they felt they were doing good by helping others. Informants often said that they derived personal satisfaction from their work because it made a positive impact on others. Staff in both providers

indicated that they received a sense of satisfaction from working with clients. They said that they enjoyed the opportunity to support their clients, and derived motivation from being able to improve their overall quality of life.

> *"It's an incredible experience to see people recover. You know, some people I'd known for 15 years who've now been clean and sober 3.5 years and they're married and in a flat and all those kind of things. There's not many jobs I don't think where you could see that kind of, you know, transformation. So I just find it really inspiring, and also, it reminds you that there's hope."* (B11)

> *"I've really enjoyed this role. It's really creative. And really it gives you a chance to, well it gives me a chance to really get stuck in with people and help them in the smallest ways that can have really like large repercussions and sort of far-reaching ripple effects, as well as the big stuff, you know, being able to support someone to get themselves off the street into a flat. And just a real sense of achievement with it all."* (B7)

Staff in non-profits (and in the public sector) are willing to trade off financial gain for the positive feelings derived from 'doing good', or to work for lower wages because they gained additional, personal benefits from their work (Frank 1996; Benz 2005). Staff in the case studies acknowledged they were willing to donate labour and chose to trade off monetary gain because they were able to do good through their work in the homelessness sector:

> *"…sounds a bit kind of clichéd really but I suppose it's always quite a positive thing to earn money by helping other people basically. The money in the sector's not great. I think we all know that but it can be as rewarding as it can be frustrating" (A12)*

One staff member noted that they left a career with better pay because they enjoyed how the work had a positive impact on others.

> *"It's interesting, being part of working with people and helping them to achieve a positive change or something. Then it would be much more rewarding than the money." (A10)*

Some staff members expressed a commitment to doing good that can be as public service motivation, where an individual's predisposition to respond to motives that are based in, or unique to, public

institutions and organisations (Perry and Wise, 1990). Staff in both providers reported strong public service motivations in their decision to serve others through their work. A few staff members were precise in noting that they were driven by a desire to work in public service, or that they saw working in a non-profit in a positive way that was distinct from work in a for-profit company.

> *"I've always wanted to be involved in – sounds grand, but public service of some sort… I've just really loved it. I really enjoyed the people, [they] are great in the sector. Obviously, you feel like you're doing something... For the most part, you feel like you're doing something that is really helping people, which is a good thing to be feeling, I suppose. I don't go home and feel like my job's pointless, like I'm sure some people do." (B2, manager)*

> *"I knew I never wanted to make someone else rich, that was the only thing, I just couldn't work for a corporate business." (B3, manager)*

Some staff qualified their motivations in comparison to the private sector where doing good was not the main objective.

> *"What do I like about it? I mean it's a good job yeah. A lot of people in their life, well they're gonna [sic] turn around and say, "I sold more cars", [expletive] that - not that I came into it for this. At the end of the day no, I mean my work has changed things for people, we've done good things for people and a lot of people can't say that." (B9)*

One staff member noted that this field of work allowed them to help people in a meaningful way that was driven by their personal faith, which placed a high value on service to others.

> *"I'm motivated by service to other people, from a religious perspective. And there's a, in this sort of sector, there's unlimited opportunities for that type of vocation or commitment. Like if you, if you're in, say you're not, you're just in another sort of job, you might give some money to charity or whatever if, if you feel minded to do so. But here, if you're working in the homeless charity, the day to day job is serving homeless people. So if you want to do that, there's sort of unlimited opportunities to assist people and [to] try and improve their situations." (B8)*

While paid staff reported high levels of intrinsic motivation to either feel good or do good, volunteers in Provider A did not respond in the same way. Volunteers were asked what they enjoyed as part of the SIB intervention and then questioned about whether this would be beneficial to their career plans. A small number of volunteers (2) were interviewed. Both did not express high intrinsic motivation to conduct their work and said that monetary compensation would be an important motivator for them if they were to take up paid employment in the homelessness sector, or as part of a SIB project team. One volunteer said that their work was helpful to clients but was clear that s/he was primarily motivated to gain work experience that would assist her/him in a transition to paid employment.

> *"Money's got to be really good, that's all I can say… I don't mind supporting my colleagues because they've supported me"* (A17)

The paid staff members interviewed did not present divergent views on their intrinsic motivation and often reported that they were motivated for reasons that either made them feel good, or because it was the right thing to do. In some cases, their motivations were drawn from both aims of feeling good and doing good. For example, some staff said they chose to work with homeless people because it made them feel good while doing something positive for society. While some staff members were more effusive than others about how they derived a 'warm glow' from their actions at work or that they wanted to do the right thing in their work than others, no informants described alternate motivations that were inconsistent with the views presented above. In both case studies, staff members described high levels of intrinsic motivation for doing their work that made them feel good or that they were doing good.

8.3. Impact of incentives on motivation

Chapters 6 (Managerial experiences) and 7 (Front line staff experiences) established that managers and front line staff members were supportive of the outcomes introduced by the SIB. Chapter 7 illustrated how front line staff differed in their responses to the incentives, with some prioritising outcomes-related payments while others stressed the importance of meeting clients' needs. That chapter examined the impact of incentives on provider behaviour and found that front line staff demonstrated autonomy in how they responded in both creative and sometimes, adverse ways. This section expands on those findings by examining the impact of incentives on staff motivation, particularly to examine whether it crowded in or crowded out their intrinsic motivation to do their work.

It is useful to examine how intrinsic motivation interacts with, or is influenced by, extrinsic motivation. Extrinsic motivation refers to activities that are not interesting to the individual (i.e., not intrinsically motivating), for example, externally or internally imposed pressures that do not correspond to an individual's goals, values, or preferences (Lohmann et al., 2016, Gagné and Deci, 2005). This approach to examining intrinsic motivation considers an individual's autonomy[25] (locus of control) in how they respond to incentives, suggesting that there is an internal locus of causality when incentivised work provides intrinsic task enjoyment, or personal meaningfulness so that it reflects the individual's goals and values (Lohmann et al., 2016). For example, where a staff member feels that they do not have control over how to respond to, or whether to accept outcomes targets as aligned with their own motivations, it will feel externally imposed and may crowd out their intrinsic motivation. Conversely, a staff member who believes that they have autonomy over their decisions may internalise the outcomes-related incentives, so that it then crowds in their intrinsic motivations.

8.3.1. Crowding in

In both case studies, staff reported that they had more autonomy over their work than in their previous roles in the sector because of the introduction of outcomes-focused goals. This allowed them more flexibility to set out their daily plans and to be more creative in how they interacted with clients. When combined with staff's intrinsic sense of task enjoyment or the personal meaningfulness derived from a sense of doing good, the influence of incentives in the SIB contract crowded in staff's intrinsic motivation. For example, one front line staff member said they were drawn to work on the SIB project for the opportunity to deliver services in an innovative way.

> *"It was quite target-driven but to be honest, we all thought, well, my personal opinion, which was kind of matched by my colleagues, was, it was very, it was a very good idea basically because for most of us working in the sector, we'd never had the chance to have any access to any funds and suddenly we could try all these different techniques to challenge long-term rough sleepers. So, for example, I'd been working in street outreach before, and I used to hear all the time, "Oh, if I just had the key to a flat or if I just had a leg up into getting to the property, blah, blah" and obviously we could never do anything about it, whereas with [the]*

[25] While Lohmann et al.'s (2016) framework notes the importance of autonomy alongside competence, the findings presented in Chapter 7 demonstrated that staff especially welcomed the freedom and flexibility of working in the SIB initiatives compared to the process-driven environments that characterised many of their pre- and post- SIB experiences in the homelessness sector. To reflect that finding, this chapter examines intrinsic motivation by considering the impact on front line staff's autonomy.

SIB, suddenly we had access; if someone wanted to come off the street I could get them the money to get their first month's deposit." (A12)

One front line staff member also reflected on how their personal fulfilment from doing good was matched by satisfaction at generating outcomes-related payments for the organisation. This reflects how the presence of incentives had the potential to crowd in their intrinsic motivations to pursue work that they already viewed as challenging and rewarding. This was particularly so for the team as a whole when reflecting on their joint successes in meeting outcome targets. However, in the latter part of the quote below, one front line staff member reflected that they were somewhat ambivalent about being motivated by the presence of rewards.

"It is, you know, great that someone's been reconnected or accommodated because when you think about or look back on their journey, like oh my days, like this is actually so good for this particular client, especially because they've been known to services and you never really thought... I love experiencing that with someone. My ones that I've been working with and just speaking to them and just you know, meeting up with them and hearing where they've come from and now they're working, volunteer[ing], and aspiring to move to their own place and that, it's really rewarding in a way and so you speak about those stuff but obviously as a team because we know what we're working towards and we know what SIB is about, that's also rewarding for us in a way, like oh my God, this is another outcome, this is another payment, it sounds so... Yeah, for some reason, now it kind of does really feel, it does feel bad in a way, I don't know why," (A8)

Another front line staff member who was supportive of the outcomes-based approach emphasised that the SIB was positive in that it enabled personal growth and increased competence for a few staff members, specifically a small number who chose to pursue further training in addiction or mental health counseling. These staff were motivated by the potential for professional development opportunities and so demonstrated how intrinsic and extrinsic motivations can interact in a positive way among staff that crowds in intrinsic motivation.

"The people that I worked with on this were in this because they really wanted to help the clients and they wanted to do something good for them. You know, they're interested in things like, you know, psychology and like addiction and, and they wanted to further their knowledge and how, you know, in that and become experts." (B10)

Front line staff in Provider B emphasised that they were motivated by a client-focused approach that prioritised doing what was right for clients ahead of meeting outcomes. This approach provided them with the space to act autonomously and assist clients as they saw fit. The staff interviewed in this site were consistent in reporting that they had the freedom to place client needs ahead of financial concerns for the organisation. This was reflected in the language they used to describe the trade-off between their motivations and the presence of extrinsic rewards. There was a crowding in of their intrinsic motivations because staff felt supported by managers and peers to do what was best for clients on the understanding that outcomes would often follow from that – and where they did not, they team could make it up with other clients. One front line staff member explained that the success of the intervention was due to the team itself and how they were motivated to help clients through a person-centred approach:

> *"I think if you've got motivated individuals, which they've been very careful to make sure they've hired, I think, then those outcomes will come. I think if you've got lazy unmotivated workers that are only doing stuff for the outcomes, well yes, yes, you're going to have a problem. But I think if you had lazy unmotivated workers you've got a problem anyway, it's just a different sort, you know. But if you've got a good strong team with people that are very person-centred in the way that they work, but that are very capable, yeah, you know, it was, it was made clear that this is about the people we're working with and not just about the money. It's working the balance out." (B7)*

One front line staff member said their manager encouraged them to focus on the clients, rather than the outcomes. This crowded in their intrinsic motivation to serve clients and allowed the front line staff member to focus on the client in the hope that outcomes would follow, but that there were no penalties for a failure to generate outcomes. This front line staff member said they were told to:

> *"Just focus on the client. Don't, don't think that, that's [it's]a payment by results [project] and you need to get results. The results will come when you do a good work with the clients in the first place. Don't rush. Just make sure that people are ready and you don't set them up to, to fail because that is two steps back for everybody, for a client and, you know, it's not healthy for, for people anyway." (B6)*

Managers and front-line staff in both providers were positive in how they described the opportunities that the SIB enabled in a positive way. For the most part, they viewed it as a new service delivery model that allowed them to do more to meet client needs than in their previous roles in the non-profit homelessness sector. In such cases, the introduction of incentives crowded in their intrinsic motivation because they felt they had a strong locus of control over how they chose to work toward outcomes-related payments. For front line staff members in particular, the SIB granted them greater autonomy over how best to meet the needs of their clients through new pathways into housing and more stable lifestyles.

8.3.2. Crowding out

The introduction of incentives has the potential to crowd out staff member's intrinsic motivation to do their work. This is particularly true where the incentives placed upon staff do not resonate with their intrinsic motivations, staff are compelled by rewards or punishments related to their career options, or there is a fear of forgoing potential benefits. This can lead to the crowding out of intrinsic motivation if staff feel their actions conflict with their intrinsic motivations. This is heightened when staff feel they are not free to pursue actions that provide task enjoyment or personal meaningfulness or that goals do not correspond to an individual's goals, values, or preferences. This is especially the case where staff do not feel that they have autonomy in their actions or constructive relationships with their managers.

In a small number of cases, front line staff reported that their intrinsic motivation to do their work was eroded by the introduction of the indirect financial incentives in the SIB contract. These instances fell into two types, first, a small number of staff reported that they felt the introduction of incentives was negative in that it implied that they would not have done their best for clients in the absence of them. In the second instance, crowding out was the result of managerial choices that led to uncertainty or job instability.

Crowding out by financial incentives

There was some evidence that the incentives in the SIB contract crowded out intrinsic motivation where staff were asked to make trade-offs between the wellbeing of the client in favour of the organisation's financial goals.

> *"It's an interesting model, but I'd like to see it more broad on its payments, so we're not under so much… because it's quite demoralising when you have to say to that person, "Sorry…" you*

can't say to them, but you have to say, "Sorry, mate you're not really going to make a payment for us, so we can't really do anything for you." (A7)

One front line staff member corroborated their manager's sense that they did not share the rest of the team's positive sentiments about the SIB service. This is a notable contrast to the glowing accounts provided by the other front line staff at this provider. This front line staff member who expressed dissatisfaction with their experience in the project did not find fault in how outcomes were framed, or in relation to how their performance was monitored. Instead, they expressed broad dissatisfaction with their work in the homelessness sector as a whole and embarked on a sabbatical after their contract with the SIB team was complete. This staff member's account noted that the erosion of their intrinsic motivation was exacerbated, in part, by the introduction of indirect financial incentives.

"Obviously, your manager's there to push you, but for me, and something I would often say back is, 'You need to tell them this is unrealistic.'" (B9)

"I can see that they were pushing you know, explore all avenues, but for me it was important for me to go, 'Just that's not happening.'" (B9)

This front line staff member described the imposition of incentives to work they felt they previously performed without incentives as demotivating but still chose to work towards outcome targets because they were motivated to contribute to a successful project. This was of interest as this staff member described having a strong locus of control and autonomy over how they selected and prioritised outcomes along a continuum of potential responses.

"Again, it's this thing of, "Oh, you've gotta do these outcomes," it's like, "Are you suggesting I wouldn't be doing my job otherwise? You want me to do something other than the job I would've been doing without this. You know, I'm gonna [sic] do my job with my hours and you'll get what you'll get." It was just with the clients you know, I guess I did, I did have that. I guess you did want things to work you know, regardless of me saying that and everything, if you're involved in a project you want it to be successful and no one wants to say, "I did this project and it was unsuccessful." (B9)

In other cases, front line staff found it difficult to reconcile doing what was positive for the client with what supported the success of the project. For one front line worker, who was supportive of the outcomes-focused approach, this was a difficult balancing act at times.

> *"I'm trying to build a relationship, I'm trying to get people off the street, I'm trying to get them engaged with treatment and although that'll be good for them in the long run, within that quarter there will be no positive, real positive outcome in terms of what the GLA then everyone expects, you know, you still have that, you know, sort of like the hierarchy sort of like expectation of what outcomes you should be producing and things like that so yeah, it's kind of balancing the expectations." (A8)*

In some cases, front line staff felt that their efforts were not rewarded, or worse, that they were futile in achieving outcomes. This was more pronounced among the front line staff at Providers A and B who were assigned the most entrenched clients in a Central London borough. In the example given below, the front line staff member explains that they were working with a very entrenched group who were not generating outcomes and were discouraged by managers from continuing to do everything they could for the client:

> *"The ethos of payment of results don't work in the context of when you work with complicated people, because you're putting more effort in, more time in, more resources in, but you're not getting anywhere."* (A7)

In another case, one front line staff member described how their first instincts were to help the group members improve their circumstances in any way possible through the freedom of the SIB, but that this impulse was tempered by the need to demonstrate success in reaching outcomes targets. Below, this staff member described how the SIB enabled them to support a group member to complete a substance use rehabilitation course but that this was not a paid outcome so it crowded out their sense of fulfillment at doing their work well. This was because there was no recognition for achievements outside the parameters of the outcomes-related payments prioritised by their managers.

> *"…for them it is a positive outcome that they're in treatment or doing detox and rehab but it's not a payment [for us] but for them…it's quite disheartening because you're just like, I can't really, you know, lose focus on that one because he's just right there, like if I just do one more*

thing he'll be right there and you know, so I think that's a conflict in itself as well just managing those expectations and what we consider as positive outcomes and what might be, you know, the aim of the project as positive outcomes may be different to our interpretation on what a positive outcome would be and especially for that individual client." (A8)

These examples illustrate how staff responded to incentives through a range of behaviours that simultaneously ranged from altruistic to opportunistic. These responses often varied in relation to the degree of autonomy staff had over their decisions regarding service delivery and the degree to which the outcomes-related incentives resonated with their own intrinsic motivations.

Crowding out by managerial decisions

Managerial choices had the potential to crowd out intrinsic motivation and lead to job insecurity or dissatisfaction, particularly when staff felt that they were not able to influence or change their circumstances. For example, in Provider A, the approach to service delivery and task allocation was characterised by a clearly defined link between achieving outcomes and maintaining the size of the outreach team after the first year. Interviews with staff suggested that the approach to outcomes could have benefitted from a more drawn out, incremental approach. Instead, the organisational decision to deploy a front-loaded intervention resulted in two main critiques: first that this led to aggressive and unsustainable pursuit of outcomes in the first year; second, that the lack of assurances that staff received about their continued employment after the first year of the intervention (as most were on 12 month contracts and were reported to have been renewed on a monthly basis after the first year) contributed to staff attrition. Staff were also quick to note that there was a change in the organisation's approach to outcomes at the end of the first year and that this resulted in substantial job insecurity and demotivation:

"I think they thought they were going to throw everything at the first year, I think that's why they got so many lead workers in and the idea was give them one year contracts and maybe they thought they were going to have all these people in accommodation and then it would be a case of slowly introducing these peer mentors or volunteers, you know, to sustain them in there and it didn't happen like that, and there were still lots of people out on the streets so they kind of focused on what they thought was going to happen and it didn't…but I don't know, it was maybe, is it, was it badly thought out? I don't know, maybe they didn't know what was going to happen, they protected themselves by giving one year contracts to people obviously but the communication, if they'd just said "We're not sure what's going to happen

next", or you know, just given some people some idea of where they're at rather than felt, people felt that maybe they didn't care actually which was probably the worse way to do things isn't it?" (A9)

An organisational factor, outside of the control of the front line staff members, that affected service delivery was the managerial flux in Provider A. The SIB team had four managers over the 41 months that the project operated. One former-staff member cast the blame on an organisational hierarchy that was hollowed out and therefore needed to promote staff without necessarily having the time to build up their capacity as managers and team leaders. The high levels of staff attrition and managerial flux had an adverse impact on staff motivation and crowded out staff's motivation.

"…lots and lots of good people were leaving [Provider A], and that's created lots of spaces and they were just pushing people up very quickly to positions who obviously didn't know how to manage, hiring new people in and then if you have the combination of fresh-faced frontline workers and managers that don't really know what they're doing it just creates a sort of perfect storm of inefficient services really, unfortunately." (A11)

One front line staff member was sharper in their criticisms of how the team was managed and the approach that the organisation took to engaging and motivating their team. While this staff member reported having a high level of autonomy in their everyday work, they felt that there was a lack of structure within the team and certainty over job security which crowded out the personal enjoyment they derived from their work:

"Looking back on it, you know, I don't think that team was particularly well managed. I think there should have been a lot more structure and strategy there basically, because there really wasn't. We were very much just left to get on with everything in a very, um, (sighs) a very kind of just slightly aimless way. I think it was that, that aimlessness which ultimately led to two of the team falling apart because people were a bit like just sort of felt okay, well, what now. That was certainly how I felt and I was only there, you know, a year, I was just, like, okay, I feel like I've done this as well as I can do it – where am I going to go now, you know." (A11)

In another case, the long-term nature of the SIB outcomes was demotivating for a worker in Provider B as it became clear that the front line staff member was expected to continue trying with the same

clients throughout the intervention. This was due to a decision to keep client relationships consistent over the three years of the contract:

> *"…just having these 30 [expletive] people to deal with all the time just, how institutionalised they were and the trauma, getting threatened by a couple of them and… I was just yeah, just dealing with these people. It was almost like the bit that was good, became the worst bit, you know, so for example, oh, that guy I've talked - to you about and lost the flat and shouldn't have. The thing is… I've tried, "Oh thank god he's gone," I'm like, "He's still mine, I've still gotta visit him," oh, and that, that was, that could be you know, what was the good positive about it was becoming a bit of an, oh [expletive], I can't, I can't just go, "Someone else deal with this guy, I'm a bit bored with him, a bit tired."* (B9)

For a small number of informants, front line staff reported that their intrinsic motivation to do their work was eroded by the introduction of incentives because they suggested that they would not have otherwise done their best for clients. 'Crowding out' was also the result of managerial choices that led to uncertainty or job instability where workers felt that they did not have a strong sense of autonomy over the conditions of their employment.

8.4. Conclusion

The analysis presented in this chapter provides empirical evidence about the impact of direct and indirect financial incentive contracts on the intrinsic motivation of staff in non-profit organisations. This chapter examined the interactions between intrinsic and extrinsic motivation to understand whether there exists empirical evidence of a crowding in or crowding out effect on motivations following the introduction of financial incentives to a non-profit organisation. In both case studies, staff indicated that they had high levels of intrinsic motivation in their work, particularly because it allowed them to both 'do good' and to 'feel good' about themselves. Staff members demonstrated high levels of intrinsic motivation to do their work and was a strong contributor in their decisions to self-select into work with homeless people. The role of extrinsic motivation was important in focusing staff on the organisation's goals under the SIB project while fostering greater autonomy through the flexible nature of the SIB contract for staff. It allowed many front line staff members to feel that they had greater control, and thereby authority, over their work while some staff reported that they enjoyed the freedom of the role but that they did not internalise the goals of the SIB so it was an enjoyable experience but not necessarily one that led to greater enjoyment of their tasks. There was evidence that intrinsic motivation had the potential to be crowded out by the imposition of extrinsic

rewards. In these cases, there was anecdotal evidence of an erosion of intrinsic motivation. This chapter provides evidence that the introduction of incentives did not necessarily have negative implications for provider behaviour but supports existing work that suggests there is a 'crowding in' and 'crowding out' effect and that autonomy is an important contributing factor to the success of a p4p initiative.

9. Conclusion

9.1. Introduction

The aim of this thesis was to explore the impact of financial incentives on non-profit organisations delivering outcomes-based contracts in UK public services to understand how they affect intra-organisational behaviour and the motivation of staff members. The case studies in this thesis examined non-profit organisations and their experiences of the impact of the SIB's direct financial incentives on each non-profit organisation and of the indirect financial incentives for managers and front line staff. This discussion chapter summarises and discusses the findings of the research relative to this thesis's aims and objectives, and considers the contribution of these findings to the literature in relation to health and social care policy, to public services financing, the framework for analysis, and other empirical studies. This chapter discusses the strengths and limitations of the research methodology. The chapter then explores the theoretical and empirical implications of these research findings. This chapter closes by presenting the policy implications and identifying opportunities for further research in this area.

9.2. Thesis aims and objectives

The aim of this research was to explore the relationship between financial incentives and organisational and team behaviour in two non-profit organisations. This research focused on the impact of the incentives generated under two different SIB contracts on organisational, team, and staff behaviour, and how these changes were articulated at both the managerial and front-line level. This research addressed these objectives through case studies in two non-profit organisations delivering services through a SIB with the same outcomes goals.

The objectives of this research were:

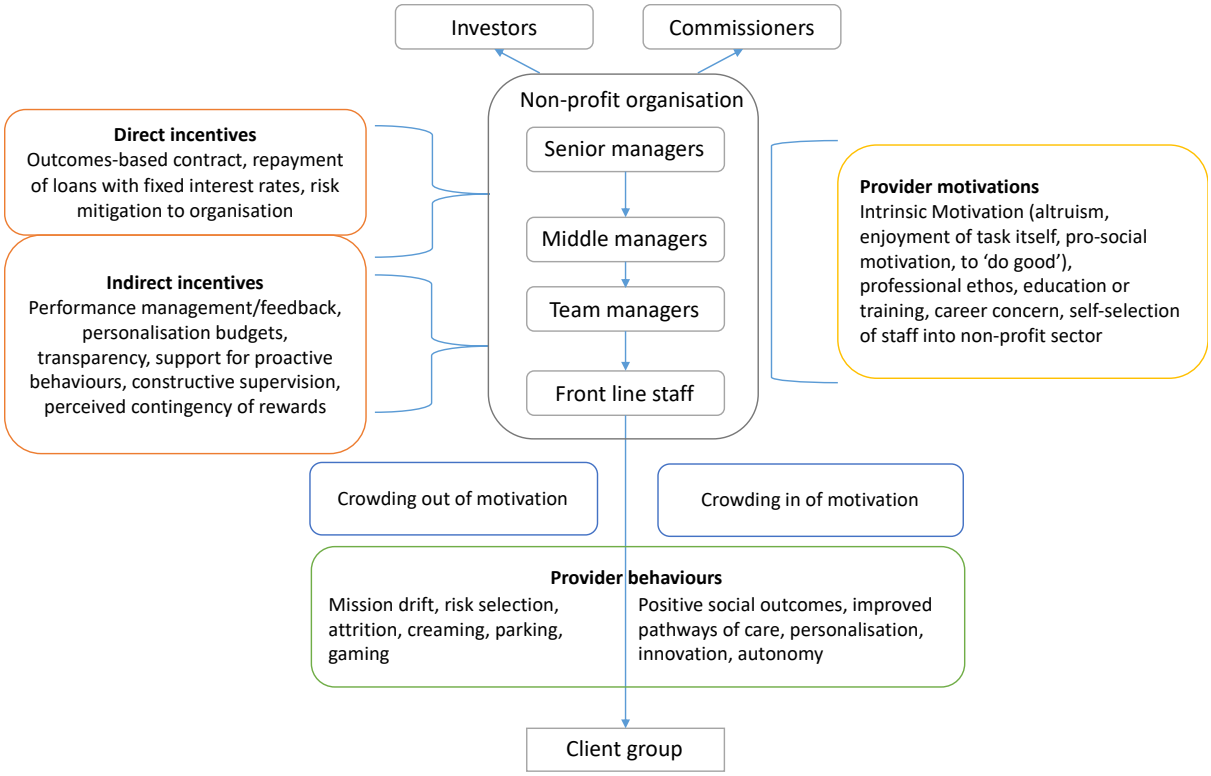
1. To understand how new financial incentives were articulated and prioritised within a non-profit organisation's management and how this affected the way that the organisations planned and delivered SIB services.
2. To understand how senior and team managers responded to extrinsic incentives and the impact that these had on staff structure, task allocation, service delivery, performance management and monitoring outcomes.

3. To understand how team managers and front line staff perceived incentives and outcome-related rewards driven by the SIB, and how this affected their attitudes toward outcome targets.
4. To understand the impact that incentives had on the intrinsic motivation of team managers and front line staff.

Framework for analysis

To meet these aims and objectives, this thesis has drawn on the framework for analysis presented in Chapter 2, Section 2.6. (see Figure 9.1. below) to consider the impacts that a SIB contract can have on the behaviours of managers and staff in non-profit providers.

Figure 9.1 Framework for analysis



This diagram illustrates the framework for analysis used in this thesis. Firstly, there is *provider motivation for staff in the non-profits,* which includes the factors that drive an individual to work in a pro-social organisation, such as intrinsic motivation and professional ethos. Second, there are the *extrinsic rewards* found in a SIB contract, such as the introduction of an outcomes-based contract or performance management. Given that workers in non-profits are expected to be intrinsically motivated and serve multiple principals, the introduction of a SIB contract has the potential to change

the agency relationship or erode intrinsic motivation. Combined, these two categories may have a direct effect on the behaviours that determine *outcomes for service recipients*.

9.3. Discussion of findings

This section discusses the implications of the research findings for the theoretical literature and for policy. Three areas are addressed in this section. First, the discussion examines the implications of the impact of incentives on the agency relationship and intra-organisational provider behaviour. The second area explores the theoretical and empirical literature about the impact of incentives on the intrinsic motivations of non-profit workers. The third section discusses the complexity of SIBs and outcomes-based contracting with non-profit providers of public services.

9.3.1. Agency relationship and incentives

The use of SIBs and outcomes-based contracts have been framed as a novel financing mechanism to incentivise improvements in accountability and efficiency through a focus on the achievement of predetermined outcomes as the main metric of successful public service delivery. SIB advocates argue that SIBs are positive because they focus providers on successful outcomes, increase accountability, and improve performance management (Buse et al., 2012, Bugg-Levine and Emerson, 2011, Callanan et al., 2012). However, SIBs can be critiqued as an overly simplistic framing that neglects the potential impact of such contracts on the agency relationship of non-profit organisations, and can lead to perverse incentives associated with p4p, such as creaming, parking, or gaming. There is an insufficient engagement in the pro-SIB literature with the potential implications of introducing new actors to the agency relationship and how direct and indirect financial incentives can diminish or erode a non-profit organisation's social mission or commitment to service recipients (Fraser et al., 2018b, Joy and Shields, 2013).

This thesis examines the impact of the SIB contracts using economic theory about the agency relationship between the service provider and the public commissioner to consider the implications of a new principal on service delivery where the non-profit providers assume a high degree of financial risk. These issues are rooted in agency theory, which assumes that incentives are needed to re-align the agent's (non-profit staff) behaviours in such a way that the principal (government purchaser) can encourage them to contribute to, or pursue, certain societal outcomes. In the case studies, the SIB contract introduced two new agency relationships between 1) the obligation to repay loans to

investors (Providers A and B) and 2) the investors on the non-profit (Provider A) or the SPV's governance board (Provider B) to the organisation's existing principal-agent relationships (details of this are presented in Chapter 6, Section 6.2.1). In both providers, it was important that the SIBs were successful, but Provider A placed more emphasis on mitigating financial risk than Provider B did. Both providers expressed some ambivalence about the introduction of external monitoring in the form of investors to the non-profit or SPV's board, but felt that it was ultimately a positive influence. That being said, the strategic importance that the senior leadership, especially in Provider A, placed on satisfying the new principal influenced how team managers prioritised outcomes-achievement and communicated that to front line staff.

It is insufficient to assume that the introduction of private investors will have no impact on the agency relationship between each non-profit organisation and their existing agency relationships with the following principals: 1) to their governance boards; 2) the public commissioner (as a source of funding); and 3) the organisations' donors in the absence of the SIB contracts. There is limited evidence about how actors choose between principals and prioritise between them. This can affect the agency relationship between the government purchaser and the service provider in unexpected or unintended ways. This thesis finds senior managers were more sensitive to the pecuniary interests of their organisation while most front line staff, who faced no performance-based rewards, were more likely to be driven by altruism or pro-social motivations. This is consistent with Besley and Ghatak's (2005) findings that the agency relationship is complicated as agents have a mix of motivations that can be pro-social, while others are driven by pecuniary interests.

Impact of incentives on teams

This research finds that the ways that non-profit organisations reacted, or framed their approach, to risks was influenced by a range of factors related to the introduction of outcomes-based contracting where the providers were in a 100% p4p relationship with the government commissioner. The contractual structures of each Provider's SIB merits discussion because Provider B's SPV meant that funds from commissioners were ring-fenced for the SIB intervention, while in Provider A, the outcomes-related payments went to the wider organisation before being dispersed to project teams. It was unsurprising that some staff in Provider A expressed some criticism of the fact that their work was generating financial rewards for the organisation but it was unclear where, and to what end, those resources were being distributed. Whereas in Provider B, staff were aware that any funds generated by their work were used to pay for staff expenses or contributed to the personalisation budgets for their clients. To extend this analysis, it can be argued that the findings of this thesis

support evidence that the level at which rewards are distributed are important factors to improving the effectiveness of the p4p payments (Kristensen et al., 2016).

The findings are mixed as to the impact of the indirect financial incentives on non-profit organisations with evidence that they can result in both improved outcomes, a more client centred approach, and the inequitable distribution of time and resources for the client group. In both sites, the SIB interventions were well-supported, novel approaches to working with an entrenched group of homeless individuals. There remains ambiguity as to whether this was indeed the best way to commission services. It is helpful to draw out interesting insights about the impact of incentives in team-based work. It was not possible to draw insights from Provider B about whether managers chose more able workers for certain clients in order to generate outcomes because their front line staff were responsible for a set group of clients throughout the intervention. Staff reported that this only changed where a relationship broke down or a client needed to work with a male instead of a female worker for security reasons. By contrast, in Provider A, there was a team-based approach to outcomes, with managers assigning particular front line staff to certain outcomes from the second year. The front line SIB team in Provider A passed clients to one another as they progressed through the housing to employment or education pathway. There was the possibility that this led front line workers to generate outcomes with the intent of passing clients away from their responsibility. This was because the service delivery model at Provider A did not expect or encourage them to foster long-term relationships where they were accountable for the best interests of their clients. There is evidence of this from the for-profit sector (Bandiera et al., 2006), but it was impossible to know whether this was the case without being able to shadow or observe the SIB team in their work for long periods of time. This was not a possibility given the resources available with a sole researcher. The managers in Provider A may have adopted the same strategy seen in Bandiera et al.(2007) to assign the most able workers to certain outcomes while letting less outcomes-oriented or efficient staff to work on clients with the lowest likelihood of generating rewards (Bandiera et al., 2007). There is also empirical evidence of this from a study of financial incentives in a public sector agency that managers selected more efficient staff for incentivised tasks (Burgess et al., 2010). While the empirical evidence suggests that there is the potential for free-riding and more inefficient overall production in teams (Burgess and Ratto, 2003), there is no evidence of this in the case studies.

This study finds that front line staff were either influenced by their team managers or a frontline worker's inclination to pursue the best interests of their clients given concurrent pressures to meet outcomes, balance workload or pursue professional goals. This exemplifies the difficulties embedded

in introducing direct and indirect financial incentives by contracting for outcomes in non-profit organisations, as it is difficult to contract for the full range of preferences and priorities that individual agents hold. In the case studies, this was compounded by the flexible and personalised approach that each organisation took in implementing the SIBs, where staff had considerable freedom and flexibility in planning their work, which was delivered on a one-to-one basis. For example, front line staff were trusted to be the main point of contact with clients and not subject to process measures, or intermediate process measures from managers, to assess their performance. This is consistent with the inherent difficulties of monitoring agents where tasks are not standardised, and can lead to unplanned, or even, perverse outcomes (Prendergast, 1999).

Impact of incentives on front line staff behaviour

This research explores how non-profit staff responded to indirect financial incentives in their work with clients to understand if, and how, their behaviours changed in response to the potential for outcomes-related payments, compared with their inclination to do what was best for their clients.

The findings suggest that the introduction of outcomes-related payments had many unintended consequences, such as managerial attrition and unintended behaviours, such as creaming and parking. For example, in Provider A, it was possible that given the high importance placed on being seen as successful and entrepreneurial, senior managers communicated that they saw successful implementation as closely linked to profit-maximising behaviour. In doing so, it was possible that they would condone of adverse behaviours that led to further changes in the agency relationship at the meso- and micro-organisational level. By contrast, the team managers in Provider B stressed the importance of using a client- not outcomes-centred model. However, this also led to unintended consequences in that front line staff fostered unsustainable levels of dependency with the client group to maintain outcomes, such as sustained accommodation. The findings suggest that the introduction of a new principal, in the form of an investor, can change the agency relationships that a non-profit has, and can lead to a range of different behavioural responses by providers. The qualitative findings presented in this thesis differ from those of the quantitative evaluation against a matched cohort which indicate that both SIBs had a positive effect overall (Spurling, 2017) because the qualitative approach to this study enabled a rich understanding about how individuals in the two provider organisations responded to the introduction of new agency relationships at the meso- and micro- levels of each non-profit organisation.

Staff were forthcoming in offering examples of ‘grey areas’ where they chose between doing what was best for the client and what generated outcomes payments. This study found that staff across

both case studies were aware of the many 'grey areas' that arise after the introduction of incentives and could articulate examples from their work of where they were responsible for making the 'right call' on behalf of their clients. This is consistent with a small number of studies that explored gaming behaviours at the provider level. One such study uses statistical methods to identify whether, and to what extent, gaming occurred in the UK's QOF scheme. It found that general practitioners took advantage of exception reporting (to exclude certain individuals as unsuitable for treatment or refused treatment in particular disease domains) to modify the denominator on which their performance payments were based (Gravelle et al., 2010). Other studies using qualitative methods find that staff were forthcoming in explaining how, and in what ways, they engaged in small gaming actions. These small actions have the potential to be pervasive if widespread, such as refusing to supply a dose of a particular medication to avoid running out of stock (which would be penalised), or the arbitrary and retrospective filling out of paperwork (Kalk et al., 2010). These studies support this research's finding that for the most part, p4p schemes can improve quality of care or achieve their stated goals, but that caution is needed as providers do find ways to exploit their circumstances in marginal ways. While it can be argued that these findings suggest that p4p initiatives do more good than harm, particularly if the unintended behaviours were marginal, it does challenge the use of incentives and rewards as the preferred motivational tool amongst policymakers in public services contracting. It is also possible that this highlights the need for better contract design, particularly when applied to non-profit providers.

Significantly, staff reported that their conflict between what was right for their clients, and what generated outcomes, was more complex than being motivated by the potential for financial gain for their organisation. This research found that a very small number of informants revealed that they engaged in the gaming of outcomes through the falsification or misrepresentation of data to evidence an outcomes-related payment. This finding is consistent with empirical findings that there exists limited evidence of gaming. However, it should be noted that one systematic review reports that this reflects limited contexts for comparison to prove gaming and suggests that more research needs to be done that monitors unintended consequences more carefully (Van Herck et al., 2010). It is unsurprising that the introduction of highly geared incentives in the case studies led a small number of staff to engage in less than scrupulous behaviour. This is consistent with both the theoretical and empirical evidence that p4p schemes have the potential to cause perverse behaviour. The evidence from these providers suggest that the pro-social motivation of staff in non-profits to 'do good,' and not be motivated by pecuniary rewards does mitigate perverse behaviour. However, it is not

sufficient to deter all agents from engaging in it, whether to appear positive in front of their peers and managers or simply to shirk responsibilities to the group.

There was also evidence of positive unintended behaviours. It is possible that there were positive spillover effects on other, non-incentivised areas for the SIB clients. For example, staff report that the SIB enabled them to place clients in alcohol and substance abuse treatment and to follow them through to completion. In these cases, the outcomes-based approach enabled front line staff to assist clients as needed although their actions were not rewarded by outcomes payments. This is consistent with evidence from the QOF program that there were positive spillover effects for non-incentivised targets (Sutton et al., 2010). The findings of this thesis suggest that the SIB contracts resulted in a number of positive spillover effects that were related to, but not required for successful service delivery. For example, it led to improved service pathways, longer-term personalised support, and evidence that a cross-borough approach is beneficial for clients and workers. It was also possible that, over the long-term, these actions potentially guided those same clients towards sustained accommodation.

Overall, the introduction of the SIBs had a positive impact on provider behaviour in that it enabled more flexibility and personalisation for entrenched social issues, but there is evidence of perverse behaviour, such as creaming, parking or gaming. Where these issues emerged, it appeared to be linked to the strategic importance placed on achieving outcomes by senior leadership that reflect the change to the agency relationship because of the introduction of a new principal, the investors. These findings support criticisms of SIBs as an overly simplistic approach to public services contracting because it is crucial to consider the potential implications of introducing new actors to the agency relationship because direct and indirect financial incentives can diminish or erode a non-profit organisation's social mission or commitment to service recipients.

9.3.2. Effect of incentives on intrinsic motivation

The impact of incentives on the intrinsic motivation of managers and front line staff is of interest to this thesis because p4p (and its variants) are often introduced to increase worker motivation through performance-related rewards. However, the introduction of incentives can be met by both positive and negative behavioural responses by staff at the individual, team, and facility-based level that depend on the design of, and implementation process for, an incentives scheme (Lohmann et al., 2016). Given that workers in the public and voluntary sectors are assumed to be intrinsically

motivated, it is important to critically consider the impact that the incentives introduced by the SIB contract had on the motivation of staff in the non-profit case studies.

These findings provide evidence in support of Lohmann et al.'s (2016) conceptual framework that incentives can 'crowd in' an individual's intrinsic motivation, so that the incentives provide intrinsic task enjoyment or personal meaningfulness where they reflect the individual's goals and values (Lohmann et al., 2016). For example, team managers and front line staff who supported the outcomes, and had the autonomy to pursue the outcomes as they saw fit, reported that the outcomes crowded in their intrinsic motivation. For example, in Provider A, front line staff felt they were able to operate at a higher, more strategic level than in their previous roles in the sector because they were responsible for navigating new pathways to societal reintegration for their clients. For example, front line staff were now responsible for convening meetings with housing officials, or advocating for their client's needs. This was different from previous roles in the sector where they had a smaller remit (e.g., in the SIB, they coordinated care planning for clients across boroughs and services whereas they were previously restricted to helping a client in a temporary accommodation and required to refer them out to council-run services when they were ready to move on). This suggests that front line staff's sense of autonomy and competency in delivering the SIB service was an important factor in crowding in their motivations. This supports the emphasis that Lohmann et al.'s (2016) framework places on to considering staff's sense of autonomy under a particular incentive scheme and how work that is not intrinsically interesting can still 'crowd in' worker motivations and allow them to achieve a sense of self-efficacy[26] and value in their work (Lohmann et al., 2016).

The SIB incentives were effective in 'crowding in' the motivation of managers and front line staff when they were aligned with staff's own best intentions for the client group while providing an opportunity to be creative, and foster better practice through personalised pathways into housing and improved health. This sense of greater autonomy and authority to develop relationships with their clients was described as a very positive aspect of the outcomes-oriented approach that was enabled by both the SIB's incentives and managerial decisions about service delivery and staff structure. This research provides evidence that indirect financial incentives have the potential to crowd in staff's intrinsic motivations if staff are able to use their best discretion to deliver services to

[26] For example, "If nurses strongly value their patients' comfort and health and understand the importance of doing their share of the unpleasant tasks for the patients' well-being, the nurses would feel relatively autonomous while performing such tasks (e.g., bathing patients), even though the activities are not intrinsically interesting." (Gagne and Deci 2005 p.348)

clients in ways that were not previously possible (e.g. process measures that curtailed personalisation) or in the absence of incentives. Most front-line staff reported that the SIB's outcomes gave them an extra sense of focus on their work. This is consistent with empirical research that found staff reported that the introduction of incentives 'awakened' their approach and motivation to work (Bhatnagar and George, 2016) and the incentives provided extra motivation to persist in working towards goals (Shen et al., 2017).

By contrast, where staff reported that incentives felt imposed and infringed on their autonomy, there were reports that intrinsic motivation was 'crowded out.' Staff that reported a change in intrinsic motivation in Provider A expressed frustration that they had limited control over the direction of their work. For example, one front line staff member reported being told to prioritise clients that could generate outcomes and referring others that would not generate outcomes back into conventionally-funded services. This front line staff member reported being caught between doing what was right for their clients and what was best for the non-profit, which ultimately reduced their intrinsic motivation to 'do good.' This suggests that the introduction of incentives is not always straightforward and can lead to divergent behaviours, and is echoed by one study from Afghanistan finds that the use of direct financial incentives requires a more finely tuned understanding of human motivation and more sophisticated approaches for managing organisations and individuals beyond performance payments (Engineer et al., 2016). While the empirical evidence provided interesting insights into intrinsic motivation among non-profit workers, there was no strong evidence from this research that direct or indirect financial incentives are the most effective policy tool available to persuade workers to do certain tasks. The use of incentives to correct for issues of motivation and behaviour as an agency issue oversimplifies the difficulties inherent in public services contracting.

Staff are understood to select into the non-profit sector for a variety of reasons, such as pro-social motivation, a sense of altruism, or a desire to 'do good.' In practice, this desire to 'do good' can be impeded by institutional constraints or subsumed by organisational priorities, where they may not be free to act in the best interests of their clients. In Provider A, senior management's choice to emphasise the importance of outcomes may have inadvertently sanctioned the use of sharper managerial techniques to push middle managers and front-line staff to meet outcomes. While there was no explicit evidence of this, interview data revealed that Provider A's lower than projected performance in year one resulted in direct consequences for how the project was funded and staffed in subsequent years. The pressure that team managers reported placing on their staff had the potential to undermine their front-line staff's autonomy over their clients by reducing personalisation

budgets and reallocating the client group among front line staff. This may have impeded front line staff's ability, or sense, that they could do everything they could for their clients, as opposed to doing what would generate outcomes payments. In some cases, this crowded out intrinsic motivation and led to demotivation or staff attrition. This interpretation of the impact on crowding out was supported by Benabou and Tirole's (2003, 2006) work that finds high powered incentives can backfire when workers are altruistic (Benabou and Tirole, 2003, Bénabou and Tirole, 2006).

There was evidence from a small number of interviews with staff who said the pressure to generate outcomes was externally imposed (particularly via pressure from managers to generate outcomes). These informants felt it crowded out their intrinsic motivation. The staff who reported this sense of 'crowding out' were the only ones that expressed discontent with the low rates of pay in the sector, with one suggesting that individual targets or rewards could have been a more valuable management tool. This supports the theoretical literature about workers in non-profits that argues they are willing to trade off financial gain for the positive feelings derived from altruism or 'doing good.' This literature suggests that there are limits to donative labour, as there exists a negative relationship between intrinsic motivation and worker pay (Hansmann, 1980, Preston, 1989, Rose-Ackerman, 1996, Frank, 1996). This trade-off is often described as the compensating wage differential where workers in non-profit firms will work for lower wages because they gain additional, intrinsic benefit from their work (Frank, 1996, Benz, 2005). This study suggests that while it is likely that non-profit staff were motivated by a desire to do good, it is possible that the compensating wage differential changed where intrinsic motivation was crowded out by a lack of autonomy over their role. For example, this might have occurred where managers infringed on a front line staff member's best judgement or preferred pathways for clients.

The findings of this research move away from previous work by Frey and Jegen (2001) that frames intrinsic and extrinsic motivation as a diametrically opposed continuum of behaviour (Frey and Jegen, 2001). This dichotomisation of motivation is an insufficient explanatory theory because it fails to capture the range of actions and preferences held by individual agents in both case studies. For example, some front line staff supported the cross-borough approach to service delivery and reported positive relationships with managers and autonomy over their work with clients, which crowded in their motivation. By contrast, another front line staff member reported some resentment at the suggestion that incentives were necessary to motivate her/him to do their work. In this case, the staff member supported the goals of the outcomes, had autonomy to pursue the outcomes as they saw fit, but felt that the imposition of outcomes still crowded out their intrinsic motivation because it

suggested that they would not do what was best for clients in the absence of incentives. This suggests that incentives can have both positive and negative effects at the individual level because front line staff make decisions and trade-offs as to how they see, and interpret indirect financial incentives, that are more complex and varied than the earlier theoretical work predicts.

This study finds that the introduction of incentives did not necessarily have negative implications for provider behaviour. Instead, it argues that autonomy is an important contributing factor in understanding whether incentives to crowd in intrinsic motivation, rather than eroding it. These findings support the use of Lohmann et al.'s (2016) conceptual framework about the importance of autonomy in understanding whether, and how, incentives can affect the intrinsic motivation of workers delivering public services through performance-based funding contracts. The findings of this thesis challenge the theorisation of motivation as a diametrically opposed continuum (Benabou and Tirole, 2003, Frey and Jegen, 2001) by considering the impact of incentives on an individual's sense of competence and autonomy to understand the impact of incentives. While this framework has only previously been applied in LMIC settings in mixed methods studies using a psychometric survey alongside semi-structured interviews (Lohmann et al., 2018, Lohmann et al., 2017), it has value as an analytical tool in understanding motivation composition for intrinsically motivated workers delivering p4p schemes. This study extends what is known about motivation crowding theory by exploring how the incentives introduced in the SIB contract 'crowded in' most staff's intrinsic motivation while 'crowding out' motivation for a small number of staff.

9.3.3. Pay for performance and outcomes-based contracting in public services

In Providers A and B, the SIBs entailed an outcomes-focused approach that focused staff on achieving long-term outcomes and enabled the development of personalised pathways to reintegrate a group of entrenched homeless individuals into more stable lifestyles. While the high-level view of the intervention appears positive, it is important to note that the SIBs were both better funded, longer-term and able to work across boroughs, unlike conventionally commissioned services. Moreover, they were both prominent policy pilots. As a result, it is all the more important to consider the potential shortcomings of this trend toward outcomes-based contracting for public services to the non-profit sector in principle, and the implications if applied at scale.

First, the use of such outcomes-based SIB contracts is problematic in principle because they treat the government purchaser solely as the payer of outcomes. In doing so, SIB contracts enable government to abdicate their stewardship role over public services because they are not responsible for monitoring or performance management of the services that they commission. In the case studies,

the government purchaser was not responsible for contract management, but relegated to the payer of outcomes. For example, in Providers A and B, the government was unable to monitor the finances and operational activities of each non-profit. As the SIBs were outcomes-based contracts, the government purchaser held quarterly progress meetings with the providers to track progress but had no oversight over service specifications (e.g., that a site maintained minimum staffing levels) or contract management activities, such as ensuring that all clients received support. As such, it was not possible to intervene when Provider A implemented a more cautious approach to service delivery by reducing staff costs in comparison with Provider B. This supports the literature that argues that the use of non-profits as delivery arms of the government can be suboptimal (Mullins et al., 2011, Alcock et al., 2013) because governments have little oversight over the non-profit organisations they work with. That is problematic because non-profits can be unstable due to a lack of asset ownership, ability to borrow funds, and investment capacity (Mullins et al., 2011). It should be noted that despite Provider B's higher staff costs and higher fixed interest rate (of 6.5% compared to Provider A's 4%), they repaid their investors for the full sum of the investment at the close of the project. While Provider B incurred higher staff costs and were liable to investors for a larger loan over the course of the intervention than Provider A, their overall performance in terms of actual versus projected income from the SIBs was similar (See Chapter 5, Section 5.3.2. for details of actual and project performance). This suggests that there appear to be many ways to achieve similar results despite variations in service delivery. For example, Provider A engaged in cost-cutting actions, such as reducing the number of paid staff, and encouraging staff to pursue free activities rather than relying on personalisation budgets for clients. It is possible that non-profit contractors will pursue an equitable, client-centred approach when implementing a 100% p4p contract but it should not be considered the norm for delivering such outcomes based contract in future.

The shift towards contracting out, and the use of the third sector as a service delivery arm of the government is also problematic in principle because it contributes to a sense of growing resource scarcity in the non-profit sector among staff in the case studies. Although a shift to contracting out should imply that more service contracts, and therefore future revenue, will be made available by government, Providers A and B felt this would occur in a climate of reduced public services where non-profits are being urged to do more with fewer resources. The research found that one provider placed more strategic importance on generating outcomes to ensure that the project team, and the wider organisation, were sustainable. This is consistent with the theoretical evidence that non-profits that perceive an environment of resource scarcity face more pressure to meet outcomes, so their staff might be more susceptible to perverse behaviour (Anheier, 2005). By contrast, in Provider B, the

larger organisation, the outcomes-based contract was a small part of their overall remit and managers stressed the importance of ensuring equitable, client-centred pathways. This is consistent with the findings of a report on the third sector that organisations with more secure funding are likely to face less pressure to alter their behaviour because the risks associated with low performance are smaller (Alcock et al., 2013). The use of such public services contracts necessitates a discussion about the actual, rather than perceived, risk of failing to deliver on contracts.

Public services contracting differs from other forms of outsourcing in the private sector as the government is ultimately responsible, and has an interest in having third sector contractors that can deliver services. It is telling that when it was not possible to attribute or evidence the health outcome (to reduce the number of unplanned admissions to A&E), the government purchaser paid the Providers A and B based on projected performance, as an act of good faith in the positive progress each were making. While no other study in the nascent SIBs literature found that the commissioner paid out on projected outcomes when attributable outcomes data were inaccessible, there is evidence that the commissioners felt that they faced reputational implications if their SIB was to be a high-profile policy pilot failure. For example, an evaluation of five SIBs in UK Health and Social Care found that the government purchaser was unlikely to let service providers become insolvent if they could not repay their loans to private investors (Fraser et al., 2018a). This is because government is obliged to consider the implications for service users if third providers were to become insolvent and withdraw from the area.

While SIBs are intended to foster accountability and better outcomes, they do not appear to fully transfer the risk of failure to non-profit organisations because of the government's ultimate responsibility. This is consistent with the evidence from a literature review about alliance-, prime- and outcomes based contracting that questions whether it is feasible or advisable to transfer responsibility away from government when it is ultimately accountable for services (Sanderson et al., 2017). This is also found to be true in the PPP and PFI literature where the UK government was ultimately accountable to honour long contracts for the design, build, and operation of hospitals (Hellowell, 2013). However, the world's first SIB at HMP Peterborough was cut short because it was not consistent with a nationwide initiative to change probation service for medium and low risk offenders, so the government withdrew from the contract after two years (Disley and Rubin, 2014). Given the potential for mission drift or perverse incentives, the government purchaser's choice to uphold Provider A and B's contracts as a sign of good faith in the work delivered with a vulnerable client population was perhaps a positive finding that motivated Providers A and B to carry on with

planned services. This is encouraging in principle but ultimately problematic if outcomes-based contracting is expanded at scale across public services because the government is ultimately accountable.

Beyond the concerns about contracting out on principle, such as the potential to fragment public services (Rees et al., 2012), or insufficient evidence that non-state providers deliver better services (Allen et al., 2011), there are reasonable concerns that the use of outcomes-based contracts at scale may have negative implications for collaborative, cross-sectoral work in the non-profit sector. This has the potential to exacerbate concerns about fragmentation in public services. There is evidence of this from Providers A and B who differed in their views about collaboration with other agencies or providers in their sector. Provider A felt that any outcomes achieved were due to their efforts because the rest of the sector had failed to intervene effectively for these clients through existing services. There was reluctance and, at times, hostility to the idea of sharing outcomes-related payments with other services whose work helped the SIB 'Navigators' generate outcomes. This is consistent with evidence that the focus on securing competitive contracts can lead to less collaborative inter-organisational behaviour between actors in the sector (Buckingham, 2009). Conversely, with Provider B, there was more confidence about their ability to attract future funds given their role as a leader in the homelessness sector. They were open to sharing their resources through collaboration to coopt the resources and expertise available from competing service providers. This sense of resource scarcity led providers to act in different ways that had important implications for service delivery and implementation for the client group.

The focus on outcomes enabled both providers to deliver more personalised pathways for societal integration than existing services for the homeless in London. Informants in both sites said the focus on outcomes enabled them to follow clients through services that otherwise operated in silo, rather than refer clients outwards, only to follow up when clients passed through their services again. While this is a positive result of the SIB, it is important to note that substantial fragmentation of public services between local authorities in the UK contributes to these weaknesses in pre-existing homelessness services. A reliance on third sector contractors can inhibit collaboration and fragment existing services because actors are no longer working toward a single goal, or mission for society, that might be found in more centralised public services provision. There is no evidence that SIBs and outcomes-based contracts are required to facilitate improvements in client pathways that better contract and grant management by public commissioners could not accomplish. Further, if public commissioners were to have the capacity to focus on improved contract management for outsourced

services, it could improve services while allowing government to take a stronger stewardship role. Moreover, it removes the potential for changes to the agency relationship associated with the introduction of a new principal, in the form of investors.

SIBs merit critical consideration because they purport to transform public services through performance measurement and accountability. This suggests that service interventions can be segmented into outcomes with a financial value and that interventions that deserve to be scaled up should be both measurable and demonstrate value for money. It is important to consider these SIBs within the context of the 'financialisation' of social policy, where public services exist to support, stabilise, or expand the economy in the era of austerity (Lake, 2015). This is problematic because governments with social welfare systems are committed to providing services with inherent market failures (e.g. healthcare). This treatment of social problems as an issue that can be solved via incentivisation is problematic because it conflates the solution to structural societal problems with a lack of accountability and efficiency in the public, and non-profit, sector. The use of highly-personalised interventions for 'problematic' social groups neglects the structural drivers of inequity and social inequality that contribute to homelessness, such as a lack of housing support for adolescents leaving residential care, shortcomings in access to mental health or substance abuse services, and a lack of options to combat recidivism among prison leavers. This is compounded by austerity measures and the fragmentation caused by the wider trend of contracting out public services to the private and non-profit sector.

The fact that policymakers have taken such a keen interest in SIBs and outcomes-based contracts as 'transformative' financing mechanisms for public services is perhaps an indictment of past decades of competitive tendering for public services. The use of competitive tendering has inhibited integrated public services planning and have instead delivered fragmentation in public services, a winnowing of the pool of potential providers (Mullins et al., 2011, Alcock et al., 2013) and a resistance to collaboration between actors rather than innovation in public services. This thesis finds that the use of SIBs and outcomes-based contracts did not absolve government purchasers of risk while requiring that they trust non-profit providers to do the right thing, but to also step in if they fail to do so. Given the potential for unintended consequences, mission drift, and less collaboration among non-profits, these issues remain of interest. This is particularly true since the UK's current Conservative government (2015-2017; 2017-present) remains interested in expanding the use of payment by results, personalisation, and outcomes-based contracting (e.g. through Social Impact Bonds). The DCMS has continued to foster the development of the SIB market through the Life Chances Fund,

through which the government has committed to spend £80 million on locally developed project using PbR (Cabinet Office, 2018). This is alongside a pledge in the 2017 Conservative Manifesto to expand the use of Housing First initiatives to combat homelessness (Conservative Party, 2017).

9.4. Contribution of the thesis

This thesis sought to understand the impact of financial incentives on provider behaviour and motivation in two non-profit organisations. There is limited empirical evidence about the impact of incentives on organisations and the behaviour and motivations of staff. This research addresses this area of the literature to make a unique contribution to the literature in three ways.

Firstly, this research study is the first known effort to understand the impact of direct and indirect financial incentives in non-profit organisations where the service provider is delivering a 100% p4p outcomes-based SIB contract, using comparative, qualitative case studies. This study is unique because it looks at the implications of the financial and contractual relationships underpinning the SIB contracts and the impact for provider behaviour. There have been many p4p experiments in the UK drawing on routine administrative data to examine organisation-based rewards such as the Quality and Outcomes Framework (QOF) in primary care (Doran et al., 2011, Gravelle et al., 2010) or Advancing Quality (AQ), a hospital-based, tournament style p4p scheme (Sutton et al., 2012, Kreif et al., 2016). It appears that no other qualitative study has taken place in a setting where government payments to non-profit providers were on an entirely outcomes-based approach. While there are a small number of studies that examine the impact of the outcomes-based payments to providers, such as the PbR drugs recovery pilot in the UK (Mason et al., 2015) and the DWP's Work Programme (Rees et al., 2014), this study is the only one with a p4p relationship between the government purchaser and service provider. In these case studies, the provider was liable to an external investor for the start-up costs of contract implementation with fixed interest rates. This is particularly notable given the non-contingent nature of the loans. As such, this research offers a unique approach. Furthermore, the case studies in this thesis were among the world's first SIBs and offer a unique opportunity to compare and, where they diverge, contrast how managers and front line staff respond to the indirect financial incentives set out in the SIB contracts. This approach differs from the current empirical literature available about the case studies where one evaluation did not distinguish between the two sites in their findings (Mason et al., 2017) and another focused on one site (Cooper et al., 2016). Two studies compared the experiences of the two SIB providers to a limited degree alongside other SIBs but differed in scope from this study. The first focused on the role of private

capital in outcomes-based commissioning (Edmiston and Nicholls, 2018) while the second focused on the SIB as a financing mechanism in UK Health and Social Care (Fraser et al., 2018a). The data in this thesis was collected as part of the evaluation reported in Fraser et al.(2018a) and is presented here in its entirety (See Chapter 4, Methods for further details of the contribution of this candidate to the thesis). This study's unique contribution to the nascent literature about SIBs is its focus on the implications of the financial and contractual relationships on provider behaviour.

Secondly, this research expands what is known about the application of incentives, how they are articulated through an organisational hierarchy, and the impact that this has on provider behaviour. This study does so by providing empirical evidence about how front line workers in both case studies responded to extrinsic rewards and how that affected how work was prioritised relative to other competing objectives that workers in non-profit firms face, such as career progression. In doing so, it builds on existing theoretical work about the use of incentives in non-profit or public sector settings (Francois and Vlassopoulos, 2008, Besley and Ghatak, 2003). There is a gap in the empirical literature about how incentives are transmitted and communicated through organisations and how this affects organisational behaviour (Milstein and Schreyoegg, 2016). This research extends the limited empirical work about the impact of incentives within organisations, particularly as they relate to intra-organisational dynamics between managers and their staff. There are a small number of studies that examine this topic that are of limited relevance because they examine the application of direct financial incentives in teams. Two are drawn from the for-profit sector. One describes the implementation of relative rewards compared with individual ones and how they led to cooperative norms and lower levels of efficiency (Bandiera et al., 2006). The other is about how managers select more able workers for incentivised tasks (Bandiera et al., 2007). Two other studies examined the impact of team-based performance related pay in the UK government's tax collection agency (Burgess et al., 2010) and in the UK government employment agency (Burgess et al., 2017). These studies are helpful in that they provide evidence that relative rewards for teams may lead to less efficient output than individual level rewards but are of limited relevance to the findings of this research because the staff in Providers A and B faced indirect financial incentives. This study contributes empirical evidence that explores the 'black box' of p4p in organisations by presenting detailed case studies about how direct and indirect incentives are communicated and operationalised by front line staff.

Thirdly, this thesis provides empirical evidence about the impact of incentives on provider motivation and adds to the literature about intrinsic motivation. The theoretical literature describes motivation in two ways: first, as a continuum between intrinsic and extrinsic motivations along which workers

move (Frey and Jegen, 2001); or second, that an individual's autonomy in responding to incentives was an important determinant of how intrinsically motivated staff are (Gagné and Deci, 2005, Lohmann et al., 2016). This study provides empirical evidence from both case studies that supports Lohmann et al.'s (2016) theoretical framework that incentives can have positive and negative effects on intrinsic and extrinsic motivation in different ways that vary with the design and implementation of the p4p scheme and how worker's respond to it. This framework has been tested in two mixed-methods studies in Burkina Faso (Lohmann et al., 2017) and Malawi (Lohmann et al., 2018) but this is the first application of this framework using qualitative methods in a high income setting. This research adds to a small but growing empirical literature about intrinsic motivation that is derived from field experiments about the impact of both direct financial rewards on individuals and teams and indirect rewards, such as new equipment on workers in the public sector (primarily health related) in LMIC settings (Lohmann et al., 2017, Bhatnagar and George, 2016, Bertone et al., 2016). There are a small number of studies from high income settings on this topic. These are an examination of the impact of pay on job satisfaction (as a proxy for motivation) among UK GPs (Allen et al., 2017) and an ethnographic study of the impact of incentives in two general practices on GPs and nurses (McDonald et al., 2007). While McDonald et al.(2007) is one of the most cited UK-based papers about motivation and draws on two comparative case studies as this thesis does, it differs in that there is no model of change regarding motivation crowding, instead the researchers draw inferences about motivation based on their observations of behaviour in the case studies. This thesis differs in that it applies the findings from the two case studies to new theoretical work about motivation crowding (Lohmann et al., 2016) that argues that the same incentives can have positive and negative effects on intrinsic motivation depending on design, implementation and whether staff support them. Among front line staff in both providers, this study found that indirect incentives crowded in motivation for staff members with autonomy over how service delivery was implemented, although there was some evidence of crowding out among staff who were ambivalent about the outcomes-related incentives or were demotivated by managerial decisions. These findings add to the current body of evidence about how indirect incentives affect the intrinsic motivation of non-profit staff and whether incentives 'crowd in' or 'crowd out' motivation.

9.5. Strengths and limitations of the methodology used

This section considers the strengths and limitations of the research methodology. The research questions were addressed through a comparative case study design that focused on how direct and indirect financial incentives were communicated through an organisational hierarchy and filtered through to front line staff.

As explained in Chapter 4 (Methods) a case study approach was selected as a comprehensive research strategy that allowed this researcher to conduct an empirical inquiry that "investigate[d] a contemporary phenomenon within its real-life context" (Yin, 2013 p.8). The case study approach was a strength of this research. It enabled the use of documentary analysis (i.e. contractual documents) and interview data. This approach was key to the collection and contextualisation of the impact of organisation-level, extrinsic, non-financial incentives (where the staff did not benefit financially even though there were financial incentives placed on their work) for managers and front line staff in two organisations. This method generated insights about the impact of different approaches to implementing a SIB on two organisations. The comparative case study approach enabled me to contextualise emerging patterns about how staff responded to the extrinsic rewards created by the SIB at a larger scale. This approach enabled me to draw out potential differences in intra-organisational behaviour. The comparative case study approach was a strength of this thesis as the use of two sites meant project findings were based on a wider range of data (Eisenhardt, 1989).

A further strength of this study was the access I obtained to contractual documents to verify the incentives described in the interviews. This study was able to identify and set out the incentives created by each SIB to understand the potential benefits and risks to each provider. This enabled a more thorough understanding of the financial obligations introduced by the SIB contracts. This allowed me to contextualise how the senior leadership understood and valued the potential earnings accrued through the SIBs, and how that affected the way they transmitted those priorities through to team managers and front line staff. The wider literature on public sector contracting is relevant for academics interested in understanding the benefits and disadvantages of SIBs as an outcomes-based contracting mechanism. However, this topic was outside the direct remit of this study and its focus on understanding the impact of financial incentives on provider behaviour and motivation.

This study relied on qualitative data to understand what the impact of incentives were for individuals working in a non-profit organisation. This was explored using semi-structured interviews about their experiences in the SIB project and their reflections about the use of direct financial incentives on the organisation and indirect financial incentives for their work. The interviews provided rich descriptive data about how staff approached their work, particularly how front line staff viewed and prioritised the client group. For example, front line staff described how they determined whether a client was ready for housing, and if that decision was influenced by the potential for outcomes payments, because their managers said it was a priority, or when it was a mutual decision based on the client's

best interests. This data enabled a detailed, contextualised account of the experience of direct and indirect financial incentives within the 'black box' of a non-profit organisation delivering services through an outcomes-based p4p contract. Those respondents who had since left their employment in Providers A and B may have been more critical of their experiences, but they might also have been less defensive about their experiences. It is possible they shared different perspectives about their time with an organisation they no longer worked in. Efforts were made to triangulate findings between informants. I drew on published primary research to contextualise these findings to mitigate the influence of informants that provided ambiguous or unclear information for any reason. The analysis of intrinsic motivations relied on interview data with staff in the case studies. The conclusions drawn from a single interviewer may be limited however, it should be noted that even if a robust and agreed tool to measure motivation had existed, the very small sample of available staff (n=33 interviews with 26 informants across two sites) would have prohibited any meaningful quantitative analysis.

This study was concerned with understanding the impact of incentives on the agency relationship and relied on data from semi-structured interviews to analyse whether, and to what degree, staff felt compelled to meet the goals of a new principal (the investors). While this research was unable to measure or monitor how staff valued different principals, or tasks, in order to derive a conceptual model of the impact of new incentives on the agency relationship, the strength of the qualitative observations may enable further theoretical research about the impact of a profit-seeking investor on the agency relationship. Further, a strength of this study is that the framework for analysis provides a model as to how the introduction of incentives had the potential to change the agency relationship. Interview data were thematically analysed based on themes from the framework for analysis so that I was able to reflect on what the theory predicted, compared to what was empirically found.

The comparative case studies sought to develop a rich account of the experiences of two non-profit organisations. It is important to note that this research gained analytical generalisability using the insights from the theoretical literature. Criticisms of the case study approach focus on their lack of generalisability and their bias towards verification (Flyvbjerg, 2006) but these can be mitigated in two ways. First, it is possible for this study to be replicated on a wider scale with more operational SIB contracts. Since the outset of this research, there have been several other SIBs commissioned using the same outcomes targets so it is possible for another researcher to conduct the study and thereby

expand the generalisability of these findings[27]. Second, a comparison of the research findings with other concurrent published work indicates that my observations were consistent with other academic researchers at these sites (See Chapter 5, Section 5.4. for a summary of the empirical evidence about these case studies and Section 9.4. for the contribution of this thesis to the existing empirical literature).

The fieldwork that formed the empirical data used in this study was collected as part of a wider evaluation of nine SIB 'Trailblazers' in Health and Social Care in England (Fraser et al., 2018a, Tan et al., 2015). The data collection was also constrained by the evaluation's timeframe for data collection and ethical approval. The fieldwork did not begin until the Summer of 2014, by which point the SIBs had been operational for almost two years so it was not possible to collect data over the life of the SIBs. Instead, semi-structured interviews were held with all staff working in both SIBs sites at regular intervals over the remaining 18 months of the contract period, with follow up interviews held again toward the end of the fourth year. Every effort was made to contact staff who were no longer with the organisations. This was more successful with former front-line staff who were happy to speak over the phone or in person as they were still engaged in the same sector or in similar work (e.g. those who had since been promoted or sought other opportunities at similar organisations). It was more difficult to contact senior leadership team members who had since left the organisation. For example, the Chief Executive and Finance Director in Provider B were not available to speak as they had since retired. There was organisational flux within Provider B's senior leadership team and it proved impossible, despite many attempts, to contact successive finance directors. Despite these challenges, there were several reasons to be confident in the findings: first, the senior leadership representative interviewed spearheaded the decision to bid for the SIB and oversaw all staffing and service delivery decisions; and second, there were no changes in the SIB's management during the intervention so there was consistency in the narrative presented to the interviewer across all informants in this site.

In summary, the limitations of this study were, first, that much of the fieldwork was collected toward the latter half of the intervention so it was impossible to gather observational data about the service intervention at the outset or to compare staff accounts to their actions in practice. Second, it was

[27] There are some caveats to any replication of this study particularly that it has been extremely rare to see 100% p4p contracts where the investors bear no risk of success or failure. In many ways, the case studies operated as proof of concept pilots so it is possible that there were unique aspects to the implementation and operationalisation of these sites that might not be captured in subsequent work.

impossible to determine the potential surpluses or losses that each provider may have accrued to better understand the impact of the contractual risks on service delivery. The strengths of this research were, first, the use of a comparative case study approach enabled the identification of the direct and indirect financial incentives in the SIB contracts and an in-depth analysis of their impact as they were filtered through an organisation. Second, the interviews provided rich descriptive evidence about how incentives are understood and impact upon service delivery. Third, the focus on the impact of incentives on motivations enabled an analysis of how incentives impacted team managers and front line staff's intrinsic motivation.

9.6. Summary of findings

This study has argued that the use of financial incentives through outcomes-based contracts for public services had complex effects because the introduction of highly geared direct incentives for non-profit organisations can change the agency relationship and staff behaviour and motivation. Further, this study finds that the use of non-profit organisations as service providers did not mitigate the potential for unintended consequences associated with p4p schemes. The comparative case study approach revealed that the introduction of outcomes-based payments for service delivery influenced how each non-profit organisation planned and delivered services in both beneficial, and occasionally, detrimental ways. The impact of the indirect financial incentives on provider behaviour was influenced by the priority that the senior leadership placed on the direct financial incentives for each organisation. This influenced how team managers were able to plan and deliver services in the two SIB contracts. The strategic importance of the SIB-related incentives for each organisation impacted how staff were then organised and the way that service delivery was structured. This in turn affected provider behaviour in relation to their approach to service delivery with the client group and their motivations to do their work. Most team managers and front line staff felt the incentives were aligned with actions that were in the best interests of the client group. For most staff, the introduction of incentives for specific outcomes was positively received and crowded in their motivations, but there was clear evidence that for a minority of staff, the implementation of the SIBs also resulted in staff attrition, unintended behaviours, and the crowding out of intrinsic motivation.

This section outlines the findings of this thesis as they relate to the objectives of this research.

The first objective of this research was to understand how financial incentives were articulated and prioritised by a non-profit organisation's management and how this affected how each organisation planned and delivered services. To do so, documentary analysis was conducted to understand what

incentives existed and how financial risk was transferred between parties in the SIB contracts. The structure of the SIB contracts in each case study was analysed to identify the risks held by the different parties involved in the SIB, to assess the degree to which each provider prioritised the success of the SIB. This analysis found that both providers held more financial risk than they would under a conventional SIB contract where the investor was liable for any financial losses; instead, both providers were wholly responsible for repaying their investors with fixed interest rates regardless of performance. In both case studies, the providers held 100% outcomes-based contracts with the government. Provider B's parent organisation was shielded from organisational risk through an SPV while it was not in Provider A. Interviews with senior and team managers in the non-profit case studies revealed how the senior leadership viewed the SIB's incentives, the introduction of a new principal (the investor), and how they prioritised them relative to the organisation's strategic priorities. Both organisations felt there were financial and reputational implications associated with failing to deliver a successful intervention, but Provider A appeared to internalise this more than in Provider B because the SIB represented a very high contract value relative to organisational finances and any previous contract value held with the government purchaser. By contrast, Provider B were confident about their positive reputation in the sector. Senior and team managers at Provider B said that any case of poor performance could reflect poorly on the pilot financing mechanism rather than their organisation's capacity to deliver a successful intervention. The interviews provided empirical insights about how senior managers viewed the SIB projects relative to the wider strategic vision of each organisation. Provider A prioritised the SIB as important to raising the organisation's profile and for the potential to attract new revenue, while Provider B framed it as a promising intervention that may or may not succeed, implemented alongside other concurrent projects.

The second objective of this research was to understand how senior and team managers responded to extrinsic incentives and the impact this had on staff structure, task allocation, service delivery, performance management, and the monitoring of outcomes. Interviews with the senior leadership team and team managers discussed the SIB incentives, team structure, task allocation, financial resources available, and performance management. Team managers at both sites instructed their staff to act as 'navigators' to guide their clients along a pathway for societal integration where they had access to personalisation funds, and staff were allocated to particular client sub-groups, e.g. elderly clients, Eastern European clients. This research found that there was a pervasive sense of resource scarcity in Provider A that influenced how the intervention unfolded while Provider B felt their long-term approach enabled an equitable, client-centred approach to implementation. The importance senior leadership placed on outcomes filtered throughout the organisational hierarchy,

and influenced how team managers implemented the intervention, the number of staff available, and the resources at hand for personalisation budgets or administrative help. For example, senior management's perception of financial risk limited the autonomy that team managers had over financial resources and the size of the service delivery team. This was evident after the first year when structural differences emerged regarding staff size and access to personalisation budgets. While Providers A and B missed their projected outcomes targets, and therefore generated substantially less outcomes-related payments in the first year, the two providers responded in different ways. When Provider A reported lower than projected income after the first year, they cut back on staff costs, personalisation budgets, and drew on volunteers to support clients. By contrast, Provider B's team remained the same size over three years. The introduction of an outcomes-based contract using sharp financial incentives resulted in unintended consequences and, in some cases, the inequitable distribution of time and resources to the client group.

The third objective of this research was to understand how team managers and front line staff perceived the indirect financial incentives driven by the SIB and to explore how this affected their attitudes towards outcome-related rewards and their attitudes toward targets. To answer this, interviews were held with team managers and front line staff to understand whether they supported the outcomes, how they influenced the way that staff approached their work with clients, and to what extent they guided staff's choices when working with the client group. In both providers, staff understood and supported the use of direct and indirect financial incentives. The interviews suggested that managers at Provider A emphasised the financial aspect of the SIB contracts, with an emphasis on the amount of money associated with each outcome to press front line staff to deliver outcomes. Here, team managers emphasised the need to mitigate financial risk and to focus on generating as many outcomes as possible. They did not engage with the concept that the SIB's incentives had the potential to generate unwanted behaviours and said that their staff were too altruistic to act otherwise. By contrast, managers in Provider B identified that the SIB's outcomes-based approach had the potential to encourage perverse incentives if staff focused on actions to achieve outcomes-related payments to the detriment of the client's pathway into societal reintegration. Instead, managers advocated a longer term, client-centred approach to outcomes generation. This manifested in three, sometimes divergent, ways: first, the self-selection of staff that were highly motivated to pursue outcomes and who associated outcomes achievement with positive team morale and working; second, high levels of staff attrition at the managerial and front line level; and lastly, evidence of unintended behaviours such as parking and creaming, along with anecdotal evidence of gaming through the falsification of documents.

The fourth objective of the research was to understand the impact that incentives had on the intrinsic motivation of team managers and front line staff. The literature review identified a gap in the evidence about the impact of p4p in non-profit (and where relevant, public) providers, particularly how organisations and teams respond to direct or indirect financial incentives, and how this affects their relationship with service recipients. Little is known about how workers in the non-profit or public sectors respond to incentives and the impact that this has on their intrinsic motivation. The qualitative interview data indicated that the impact of financial incentives on the motivation of staff working in the non-profit case studies mainly led to a crowding in effect, and in a small number of cases, a crowding out of intrinsic motivation. This research found that staff members demonstrated high levels of intrinsic motivation to do their work and that this was a strong contributor to their decisions to self-select into work with homeless people. The majority of staff, at all levels of the organisations, reported that the incentives were aligned with their own best intentions for the client group. The imposition of indirect financial incentives, through the SIB contract, played an important role in focusing front line staff on the organisation's goals. For front line staff, the SIB fostered greater autonomy to act in the best interests of their clients because of the focus on longer-term outcomes compared with conventionally funded services that were characterised by service silos and process measures. There was some evidence that for a small number of front line staff, the outcomes goals did not resonate with their intrinsic motivations and they reported ambivalence about the introduction of indirect financial incentives. While these staff supported the cross-borough approach to service delivery, a small number reported pressure to deliver outcomes and frustration with organisational flux. Most of these staff members left the SIB team to work in conventionally funded services. A small number stayed with the SIB because they wanted to continue to work with their clients. One front line staff member reported some resentment at the suggestion that they would not do everything they could for their clients in the absence of indirect incentives. These findings provided evidence that for staff who supported the outcomes and had autonomy to pursue the outcomes as they saw fit the outcomes 'crowded in' their intrinsic motivation. However, for a smaller number of staff, some of whom had autonomy and others who did not, reported that the indirect financial incentives 'crowded out' their intrinsic motivations.

This thesis explores the relationship between financial incentives and organisational and team behaviours in two non-profit organisations to understand how managers and front line staff respond to the use of direct and indirect outcome-related financial incentives. The analysis of the SIB contracts identified the potential for unintended consequences and suboptimal allocations of resources. The strategic importance senior leadership placed on direct financial incentives influenced

how team managers organised staff structure and service delivery. Front line staff understood and prioritised the preferences of their team managers in their choices to apply a client- or outcomes-centred approach to the client group. Incentives 'crowded in' intrinsic motivation for staff that supported the outcomes targets and had autonomy over their work. This study finds that the introduction of incentives can affect provider behaviour in predictable ways that have both positive and negative implications. These vary with individual's preferences, how they respond to, or prioritise, different principals in their agency relationships, and how organisational priorities are communicated and ranked relative to each individual's goals and objectives. By exploring the relationship between financial incentives and intra-organisational behaviour, this thesis finds that the highly-geared incentives in these outcomes-based contracts had complex effects on provider behaviour and intrinsic motivation that impacted service delivery in the case studies.

9.7. Policy Implications and further research

The last section of this discussion chapter considers the implications of this research for health and social care financing and suggests directions for further research.

Policy implications

This study expands the current literature available about how incentives influence provider behaviour or attitudes towards risk. For policymakers, the findings of this thesis suggest that the use of outcomes based contracts with non-profit organisations is insufficient to mitigate the potential for perverse incentives associated with p4p schemes. There are three important policy implications for those seeking to expand the use of SIBs and outcomes-based contracts in public services. These apply to UK Health and Social Care and further afield where SIBs and outcomes-based contracts are of interest for policymakers, and other actors interested in expanding the use of SIBs, or other forms of outcomes-based payments in the UK.

SIBs and outcomes-based contracts should be approached with caution about the appropriate allocation of risk

It is important that policymakers exercise caution in how risk is contractually allocated between service providers and investors so that non-profit organisations remain able to prioritise their social mission over mitigating financial risk, whether it is to serve the public interest or the needs of a particular social group. Given that policymakers are unable to shift the risk of failure away from government because of its ultimate responsibility for public services, they must consider why the use of SIBs is more appropriate than alternative financing arrangements, such as outcomes-based

contracts with conditional grants instead of private investors. Policymakers must also consider what objectives SIBs might serve that cannot be met under alternative approaches, such as better contract management of public services.

The introduction of SIBs and outcomes-based contracts are intended to deliver greater accountability among non-profit providers and enable governments to only pay for successful programming. SIBs are unique among outcomes-based contracts and PbR schemes in that they introduce new actors, in the form of private, social or philanthropic investors. These actors hold distinct roles that are separate from that of non-profits and public commissioners in SIB contracts. This is because they are not ultimately accountable to serve the public good or a social mission but are expected to take on the financial risk of failure if the interventions fail. While social investors or philanthropic investors may be motivated to do good with their funds, SIB investors must be seen as distinct from other, grant-focused sources of financing because they enter the SIB contract with the intention of recouping their investment. This was true of the two case studies where the investors bore no risk of financial losses. As noted in Section 9.3.3, governments and public commissioners retain ultimate responsibility for public services, and the populations served by those services.

Policymakers should note that the two case studies were separate interventions with different contractual structure and risk allocations between the providers and investors that affected service delivery when considering whether to scale up similar interventions. The contractual structure of Provider B featured an SPV that served to financially insulate Provider B's wider organisation from the financial risk of failure, and so the senior leadership and managers in Provider B did not stress the strategic importance of the SIB's success to the wider organisation's financial viability. This was an important contributing factor to how Provider B implemented the service. It should be noted that there were two additional factors that contributed to the differences in how incentives were communicated through the organisation: first, there was not an external performance manager or intermediary involved in the SPV so the non-profit had greater autonomy and organisational oversight over their strategic approach to service delivery, and second, policymakers should note Provider B's larger size, role in the homelessness sector and greater financial stability.

Non-profit management and leadership are important contextual factors for service delivery and implementation because providers are susceptible to the perverse incentives associated with p4p schemes

The focus on outcomes for service beneficiaries has the potential to improve public service delivery for non-profit organisations whose pro-social missions are aligned with the objectives of a SIB. The application of incentives to non-profit organisations, who are altruistic and socially-minded, is expected to mitigate the potential for the perverse incentives associated with p4p schemes. This thesis finds that leadership style and the choice of managerial staff for the SIB interventions are important contextual factors that can moderate the impact of financial incentives on provider behaviour. However, there is also anecdotal evidence of unintended behaviours, such as creaming and parking. While the unintended consequences were highly varied, policymakers should note that in a small number of reported cases, the SIBs' incentives did result in perverse incentives and that the altruism and pro-social motivation of non-profit staff appears to have been insufficient to entirely avoid such incidents..

The case studies provide evidence that that the financial expectations of the SIB held by the senior leadership team affected how Providers A and B interpreted and prioritised financial incentives and that this, in turn, affected how front line staff understood and framed their approach to service delivery in positive, and sometimes unintended ways. The SIBs enabled greater flexibility in service delivery by enabling managers and front line staff to overcome institutional inertia and develop innovative new solutions for service delivery in both case studies through personalisation budgets and the ability to work across different London boroughs. Policymakers should also be conscious that the case studies provide evidence that leadership style and managerial choices can have unintended consequences. For Provider A, this resulted in strong managerial pressures to meet outcomes, the parking of difficult cases, and a small number of gaming incidents that involved the falsification of outcomes achievement. In this case, Provider A perceived an environment of resource scarcity, and so the pressure to meet outcomes was emphasised. In Provider B, there was evidence that the team managers were conscious of the potential for perverse incentives and guarded against that by focusing front line staff on a client-centred approach to moderate the impact of financial incentives. However, an unintended consequence of the client-centred approach was that front line staff fostered unsustainable levels of dependency with the client group to maintain outcomes, such as sustained accommodation. While Provider B did not emphasise the strategic importance of generating outcomes to support the organisation's viability because the SIB was a small part of their overall remit; this was an unintended behaviour whereby the provider obtained outcomes-related payments for unsustainable service delivery.

Policymakers should note that the application of highly geared incentives in non-profit organisations can result in a range of different behavioural responses by providers that can improve service delivery through greater flexibility and opportunities to break through institutional inertia. Managerial and leadership styles are an important moderating factor that can mitigate the potential for unintended or adverse consequences.

SIBs have the potential to exacerbate fragmentation in public services

The introduction of outcomes-based SIB contracts where the public commissioner only pays when successful, predetermined outcome metrics are met belies the complexity of public services provision for government. SIBs are a variant of contracting out in public services and as such, have the potential to fragment public services, because they encourage competition between non-profit providers for service contracts. SIB interventions are premised on delivering innovation by freeing providers from process and target measures to do what is best for their target population. However the focus on highly personalised interventions has the potential to fragment public services because local non-profit providers are not required to work in conjunction with, or in pursuit of a nationwide strategy. It also requires non-profit providers to compete against other providers for service delivery contracts that may ultimately impede collaborative working, or the development of joint practice, in the non-profit sector.

In practice, the non-profit case studies appeared to deliver better outcomes from a qualitative perspective for individual service recipients based on staff accounts about how difficult it was to reintegrate entrenched homeless individuals into secure accommodation. The DCLG's quantitative analysis (discussed in Chapter 5, Study Setting, Section 5.4) found that the two SIBs had a significant positive impact on moving the group into long term accommodation (Spurling, 2017). Taken at that, it appears that the SIB was beneficial in meeting its stated goals and policymakers may be tempted to scale up similar interventions as a tried and tested mode of service delivery. However, it is important to consider the broader impact of these SIB schemes on the non-profit sector working to combat homelessness, and to question the sustainability of these highly-personalised interventions on a wider scale.

The use of SIBs to target a subset of entrenched homeless individuals demonstrates that cross-borough pathways to housing and sustained accommodation are possible but such a targeted approach to social problems simultaneously neglects the structural drivers of inequity and social inequality that leads to homelessness. While the SIBs were effective in targeting a specific group of

individuals in the case studies, their implementation process did not require either provider to work collaboratively with other providers, or to find long-term solutions to existing silos or blockages. Provider B chose to subcontract and work collaboratively with other providers but Provider A did not, leading to similar overall performance results. For some providers looking to take on such SIB contracts, this might suggest that positive results can be achieved without collaboration from others, so there may be few incentives for inter-sectoral working for better practice. This highlights the importance of government stewardship over the direction of policy travel if these projects are scaled to wider contract values to deter fragmentation. Where policymakers choose to proceed with SIBs, they should be cautious to retain a degree of stewardship over the direction of policy and best practice, alongside a plan for how to proceed in the case of failure given their ultimate responsibility as the payers for public services.

Further research

The analysis above suggests that there are a number of areas in this research space that require further empirical evidence.

First, further analyses of contractual relationships and risk allocation between parties in SIBs is necessary. There are no established norms or processes for the different actors involved in SIB development. It is important to examine the impact of shifting contractual structures and ownership models on non-profit service delivery given the introduction of outcomes-focused service models. The allocation of risk between actors is also an important consideration that requires further examination because the degree of financial risk that a non-profit assumes can change the agency relationship between the non-profit and the public commissioner. Research is needed that compares and contrasts the implications of different contractual models and allocations of risk between actors in SIBs and outcomes-based contracts for public services. It is also unclear what the impact of greater competition for public services contracts will be on the non-profit sector. Further work should contribute to understanding whether a more competitive climate for contracts can foster more innovative services delivery and collaborative working, or whether it will deter non-profits from joint working to achieve shared social goals, such as a reduction in homelessness.

Second, the strength of the qualitative observations may enable further theoretical research about the impact of a profit-seeking investor on the agency relationship. While there is an established theoretical literature that seeks to model the agency relationship in non-profit organisations in contrast to other sectors, there is also scope to use qualitative economics analysis to lend greater

insights and specificity to theoretical work, particularly in complex areas such as the intra-organisational impact of p4p incentives and outcomes-based contracting. For example, further qualitative research about the application of p4p financing mechanisms to non-profit organisations can provide important insights about the priorities and preferences of agents delivering public services that can contribute to the development of better models about incentives and intrinsic motivation. This can contribute to the development of new theoretical approaches in areas where current explanatory models are lacking.

Thirdly, more work is required that seeks to understand the impact of incentive schemes on provider behaviour. There are few studies that expressly seek to examine this, and those that do draw on routine administrative data to identify patterns of behaviour that differ from other, non-incentivised work (Doran et al., 2008, Gravelle et al., 2010, Carter and Whitworth, 2015). A strength of this work was the use of detailed comparative case studies that delved inside the 'black box' of p4p in an organisation. This would be a valuable addition to future work on p4p schemes. To complement this work, more work is needed that uses mixed-methods research design to identify how providers respond to incentives, to measure in some quantifiable way the extent of the p4p or SIB effect, and to provide contextual data within which to situate findings. More robust study design is needed to ascertain the impact of incentives and whether, and in what ways, it leads to unintended consequences.

Lastly, further research is needed to understand the impact of incentives on motivation within organisations using agreed tools and definitions of motivation. At present, this is an emerging area of work that blends economics and social psychology but more work is needed that explicitly looks at the impact of direct and indirect financial and non-financial initiatives on intrinsic motivation. This study is the first to apply Lohmann et al.'s (2016) framework in a high income setting using qualitative methods and more such work is needed to test this new approach (Lohmann et al., 2016). This can contribute to better p4p design where incentives schemes can be tooled in such a way to maximise the potential benefits for those involved while mitigating the pitfalls associated with the crowding out of motivation.

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11. Appendices

Appendix 1. Request for contractual documents

London School of Hygiene & Tropical Medicine
Faculty of Public Health & Policy
15-17 Tavistock Place, London WC1H 9SH
United Kingdom

Reception: +44 (0)20 7927 2700
www.lshtm.ac.uk

Dear [insert name],

I am writing to you to ask for your cooperation in the Department of Health commissioned Evaluation of Social Impact Bonds (SIBs) in Health and Social Care. This research is being conducted by the Policy Innovation Research Unit, led by Professor Nicholas Mays, and is a collaboration between the London School of Hygiene & Tropical Medicine and RAND Europe.

This evaluation has followed the progress of the original nine Trailblazer projects which received funds from the Social Enterprise Investment Fund in 2013 to investigate the feasibility of applying SIB mechanisms to Health and Social Care. At present, five of the original nine Trailblazers have successfully progressed to become active SIBs (THE SITE NAMES HAVE BEEN READACTED FOR CONFIDENTIALITY).

We are contacting you, as a commissioner for one of the five projects listed above, to request that you share any relevant service contracts with the research team in order to help them complete one of their central research objectives. This is to *describe and characterise the signed SIB contracts in order to unpack the implications in terms of incentives and risk-sharing arrangements for the different parties.* This is a crucial element of the research programme which will enable greater understanding of the potential role and effects of SIBs compared to other approaches to paying for public services. It will also provide key policy lessons for other

The research team will treat all disclosed contracts and documents with the strictest regard for confidentiality and anonymity. The analysis of theses contacts will be used to extend the understanding of the contractual relationships between relevant parties with the aim of producing a thematic summary of the similarities and differences in the five contracts. No findings or contractual detailed will be attributable to any of the five sites. All findings will be subject to internal quality assurance processes and peer review from the Department of Health prior to any public dissemination of any findings. We understand that it might be necessary to redact some details of these contracts due to commercial confidentiality.

Your cooperation with this request is much appreciated and will be of crucial importance in helping the Department of Health understand the potential benefits and drawbacks of using Social Impact Bonds in financing new services in Health and Social Care.

Yours sincerely,

Dr. Mylene Lagarde

Senior Lecturer in Health Economics

Policy Innovation Research Unit, Department of Health Services Research and Policy

Health Economics and Systems Analysis Group, Department of Global Health and Development

London School of Hygiene and Tropical Medicine
15-17 Tavistock Place, London WC1H 9SH
Tel. +44 (0)20 7927 2653

SIBs contracts request letter, v 14 July 15

Appendix 2. Interview topic guide

INTERVIEW SCHEDULE, LONDON ROUGH SLEEPING SIBS
FOR USE WITH SERVICE PROVIDERS AND FRONT LINE STAFF

About the SIB and your role

- Can you give me an overview of this project and your role in it?
    - Time involved?
    - Who you work with?
- Why do you think your organisation took part in it?

(Senior and team managers specific)

How does the SIB operate and how is it managed?

- How did your organisation approach this SIB?
    - How partnership was negotiated?
    - How is the project managed? How has this changed over time?
- How were service managers and frontline staff identified and recruited to this initiative?
    - How many are voluntary/paid?
    - How are staff and volunteers trained?
    - How was caseload assigned? How was target population dispersed among team?
- What issues did you feel might arise as a result of the SIB; what if anything was done to manage these; what issues have arisen in practice?
- What agencies do you work in partnership with?
    - How strong are your links with those partner agencies?
    - Are there any incentives to develop further partnerships?
    - How do referrals work?

Impact of incentives on work

- Describe the performance monitoring arrangements for you/for frontline staff?
- Are staff and volunteers aware of performance monitoring?
    - How are expectations/cases managed?
    - What mechanisms are used for database monitoring and outcomes measurement?
- What, if anything, would you change about the way this intervention is delivered?
- How and in what ways do the regular outcomes payment schedules affect the work of provider organisations?
- What are the incentives involved for staff/managers/(sub)-contracting organisations?
- What issues did you feel might arise as a result of the SIB; what if anything was done to manage these; what issues have arisen in practice?
- What is different/has anything changed from the early stages of implementation?

Impact of the SIB on users and service recipients

- How and in what ways does the SIB change the services received by users?
- *(for managers/front-line)* Can you walk us through a typical day or week in your work?
- What is different for you?
- What were your concerns about working in a p4p/outcomes based contract?
- How quickly are you able to respond to client needs?
- How flexible can you be in responding to client needs?

    - How much of this is because of the SIB?
- Have you worked in similar services without incentives?
- How if at all do performance management requirement affect the way you provide your service, select your clients, etc.?
- What is your strategy for engagement with client groups?
- How regularly will you seek to engage service users? What do you do if users will not engage?

Motivations

- How has working on the SIB affected your work?
    - Motivations to work in this sector?
    - Why were you drawn to this sector?
    - What concerns, if any, did you have about working under an outcomes-based contract? What experiences did you have of this?
- How has your performance been monitored?
    - How has this affected your work? Enabling factors or obstacles?
- What concerns, if any, do you have about using p4p when working with vulnerable populations?
    - Impact on the sector? Positive direction?
- What impact, if any, will there be on your next steps? How has this experience helped or hindered your career progression? How will was role different from others?

Ending a SIB

- What actions have you taken to prepare for the end/wind down of the SIB in November?
- How would you like to see the project wind down? How much oversight do you have in how funds are allocated at the end of this project? How much staff will you keep/would you keep?
- What are the best and worst case scenarios for the target population?
    - Concerns about how they will fare with less support?
    - Impact on how you see/define long term success?

Key lessons and closing questions

- If you could share 2-3 key lessons from your experience with this SIB, for those considering SIBs in the future, what would these lessons be?
- If you could change one thing about the process or working on this project, what would it be?
- Is there anything else you would like to comment on that we have not discussed today?

Appendix 3. Participant information sheet

Information sheet – Service provider v 21 March 2014

EVALUATION OF THE SOCIAL IMPACT BOND TRAILBLAZERS

Participant information sheet – service provider interviews

Introduction

You are invited to take part in an evaluation of the of the social impact bond trailblazers being conducted by researchers from the Department of Health-funded Policy Research Unit in Policy Innovation Research (PIRU). Before you decide whether to accept this invitation it is important for you to understand why the evaluation is taking place and what it will involve. Please take the time to read the following information, and feel free to discuss the evaluation with colleagues if you wish. Do not hesitate to contact us if you have any questions about the evaluation.

Context

Social Impact Bonds (SIB) have been introduced recently as a new form of contract to fund the delivery of public services. These contracts involve three parties: public sector commissioners, social investors and service providers. In a nutshell, in a SIB contract, public sector commissioners partner with private for-profit or Third Sector social investors to fund interventions that seek to tackle (usually complex) social problems (e.g. rough sleeping, frail older people with multiple long term conditions, youth offenders, etc.). More specifically, charities and/or private investors cover the upfront costs necessary to set up the interventions implemented by service providers, while the commissioner commits to pay rewards if pre-defined desired outcomes are later reached.

Currently, there are nine projects in the area of health and social care that have received seed funding so that they can analyse whether they wish to provide services through a SIB. The Department of Health's Policy Research Programme has commissioned an independent evaluation of these projects from the Policy Innovation Research Unit at the London School of Hygiene and Tropical Medicine to explore their potential benefits and costs.

The purpose of the evaluation

The specific objectives of this evaluation are as follows:

(1) To describe and assess the development of the nine SIB trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts.

(2) To describe and characterise the signed SIB contracts in order to unpack the implications in terms of incentives and risk-sharing arrangements for the different parties.

Evaluation design

The evaluation comprises:

- Semi-structured, qualitative interviews of key stakeholders from each of the three parties involved in the preparatory phase of SIBs (private investors, service providers and commissioners).
- document review of project documents and contractual documents signed by all parties

The evaluation also includes a literature review and set of interviews with experts involved with similar schemes in other countries that will be used to develop a typology of the different possible ways in which SIBs can be designed, and the implications for providers, investors and service commissioners.

Why have I been chosen to participate?

You are being invited to take part in the evaluation because your organisation is, or has been, participating in discussions to provide health and social care services funded through a Social Impact Bond. If you do agree to be interviewed, you will be offered a consent form to sign before the interview. You will be able to withdraw from the study at any time, without giving a reason.

Do I have to take part?

No. It is entirely up to you whether you participate in this evaluation or not, and if you do not wish to participate, you do not need to give a reason.

Are any risks involved?

The study has been reviewed by anonymous peer-reviewers, policy experts at the Department of Health, the relevant NHS Research and Development offices and the research ethics committee at the London School of Hygiene and Tropical Medicine. This study involves no personal risk; interviews should cause no distress or discomfort to any participant.

What will happen to me if I take part?

If you agree, we will ask you to take part in one interview with a trained researcher over the telephone or in person. The interview will last for about one hour and will be recorded so that we do not miss anything important. The interview will be arranged to take place at a time and date that is convenient for you.

In the interview you will be asked a number of questions about the Social Impact Bond, including why your organisation decided to consider funding services through this mechanism; what you think are the potential benefits of this type of contract; what you identify as the potential challenges of such an approach ; what the negotiations have involved (e.g. selection of performance outcomes, valuation of outcomes, data to be used to measure the performance, population targeted, etc.) and what aspects were important to you in the discussions ; what were the technical challenges faced by your organisation during the design of the SIB and discussions with the other parties; reasons why decisions were eventually made [to launch a SIB / not to proceed with a SIB].

You may also be invited to participate in a brief follow-up interview in about six months' time. It is entirely up to you whether you participate in the follow-up interview. You can limit your participation to just one interview if you wish to.

Why should I take part?

The overall aim of this evaluation is to describe the potential benefits and challenges associated with the use of Social Impact Bonds in health and social care. Although there may not be any immediate benefit to you from taking part in this evaluation, we believe that this evaluation will contribute to an understanding of the practical and financial issues of this innovative alternative funding mechanism and inform future similar initiatives.

Confidentiality and dissemination of data

Information derived from interviews and documents will be used for study reports, conference presentations and articles in research journals. The study report will be submitted to the Department of Health, and will be available to participating organisations. Findings will be reported without identifying

peoples' names, and treated as completely confidential within the research team. If interviewees agree to be tape-recorded and agree that quotes may be used, this will be done in confidence for illustrative purposes in the report or any research papers/ conference presentations. All data will be securely stored in an anonymous form and will only be accessible to the research team. The report is likely to be available summer 2015 and will be available online www.piru.ac.uk

Who is organising the evaluation?

The evaluation is being funded by the Department of Health and is being conducted by a research team based at the London School of Hygiene and Tropical Medicine.

Who has reviewed this evaluation?

The study has been reviewed by the National Department of Health, policy experts at the Department of Health, the relevant NHS Research and Development offices and the research ethics committee at the London School of Hygiene and Tropical Medicine.

What if there is a problem?

If you have a concern about any aspect of the interviews, you can speak to the researcher who will do her best to answer your questions. During the interview, you can stop at any time and decide not to continue. If you could like to make a complaint, please contact either investigator listed below.

Thank you for reading this information sheet.

Nicholas Mays
Professor of Health Policy and Director, Policy Research Unit in Policy Innovation Research
nicholas.mays@lshtm.ac.uk
Chief Investigator

If you have any questions about the evaluation or require further information, please contact us. If you phone and do not get an answer, please leave a message and we will be happy to call you back.

Contact for further information:
Principal Investigator:
Mylene Lagarde – phone 020 7927 2653, email Mylene.Lagarde@lshtm.ac.uk

Appendix 4. Consent form

Consent form – Service provider v 9 January 2014

EVALUATION OF THE SOCIAL IMPACT BOND TRAILBLAZERS

CONSENT FORM – SERVICE PROVIDER INTERVIEW

Name of Researcher: [Stefanie Tan]

If you are happy to participate please complete and sign the consent form below

	Please initial box
1. I confirm that I have read the Participant Information Sheet concerning this study and I understand what will be required of me and what will happen if I participate in this interview	
2. Any further questions concerning this study that I had have been answered by [Stefanie Tan]	
3. I understand that at any time I may withdraw from this study without giving a reason	
4. I consent to the interview being recorded	
5. I agree to share SIB contracts or documents and understand that they will be used unnamed to inform the evaluation report.	
6. I do/do not agree to be quoted unnamed in any reports or publications arising from this study (please delete as appropriate)	

I agree to take part in this study

_____	_____	_____
Name of Participant	Date	Signature
_____	_____	_____
Name of Researcher	Date	Signature

1 copy for participant; 1 for researcher, v 9 January 2014

Appendix 5. SIB outcomes targets and schedules for repayment

NB: There is a maximum of £17, 200 that can be collected per individual through this intervention

Outcome	Definition	Eligibility criteria	How payments are validated	How many times payments can be claimed	How long these outcomes are paid
Primary outcomes					
Reduction in bedded down sightings	Service providers receive an outcome payment for each individual not seen bedded down during that quarter above a baseline figure[1]	If clients[2] are not recorded bedded down rough sleeping by street outreach teams across London on the CHAIN database.	CHAIN database.	No limit, quarterly	November 2012-October 2015; quarterly
Move into settled accommodation	Client enters eligible accommodation	Settled accommodation is defined as: 1. General needs social housing, supported housing, private rented sector, or tied accommodation. This should be one of the following tenure types: assured tenancy (periodic or fixed term); assured shorthold tenancy (periodic or fixed term); or a secure tenancy. 2. Living with friends (not as a tenant) or living with family provided the cohort member has exclusive access to a bedroom with their own be. 3. A Care Quality Commission (CQC) registered care home providing social care or nursing care for life. 4. Hospice until the end of life, or for respite care while maintaining stable accommodation.	• Submit, or have a copy of, the signed tenancy agreement. • Standard GLA template to certify exclusive occupation and provide the address • The occupancy agreement issued by the care home and a copy of the aims and objectives statement of the care home • Evidence of a written agreement that an individual is in lodgings (for at least 6 months), or a mobile home or board with a fixed site.	This payment will only be made one time.	October 2015

		5. Lodgings, in a room of their own, with a landlord for at least 6 months 6. Written agreement that the individual is on a fixed site (e.g. mobile home in caravan park or boat on mooring) The following are not considered eligible for payment: where the local authority has accepted a duty under homelessness legislation and accommodated a household in temporary accommodation; any temporary accommodation under a non-secure tenancy; a license; assured shorthold tenancy; rehabilitation or treatment facilities; with family and friends if sleeping in a communal living area; stays in prison if convicted of an offence[3]. Stays in hospital or in custody are not eligible if stable accommodation is not maintained. If the client is already in accommodation at the point of first contact, then this payment cannot be claimed.			
Sustainment in settled accommodation for 12 months	Client remains in an eligible settled accommodation for 12 months	See criteria for move into settled accommodation. The client cannot have more than one recorded bedded down sighting in the 6 month period prior to a claim being made; the individual is permitted to move up to 3 times in the first 12 months, but any more is not considered stable accommodation for this period. The period of sustainment would be reset from the start at	Standard GLA template to certify where individual is living at the time of the claim, and evidence of any moves during the stability period. Providers must supply evidence of any moves, in the form of a tenancy	Not specified	October 2016; this outcome will only be paid if the client is in sustained accommodation for 11 months at October 2015.

		the time of the fourth move into stable accommodation. If the client is already in accommodation at the point of first contact, then this is the first payment that can be claimed. The sustainment period will begin from the latter of the point of first contact or the start of the contract. If the individual is moving between one type of stable accommodation to another, a gap is acceptable unless it is longer than two weeks, or cannot be verified. In such cases, the period of sustainment would be reset from the moment the individual re-enters stable accommodation.	agreement or a certification that the individual has been with family or friends.		
Sustainment in settled accommodation for 18 months	Client remains in an eligible settled accommodation for 18 months	See criteria for move into settled accommodation and sustainment to 12 months. The client cannot have more than one recorded bedded down sighting in the 6 month period prior to a claim being made The individual is permitted to move up to 2 times between the 12 to 18 month period, but any more is not considered stable accommodation for this period. The period of sustainment would be reset from the start at the time of the third move into stable accommodation.	Standard GLA template to certify where individual is living at the time of the claim, and evidence of any moves during the stability period. Providers must supply evidence of any moves, in the form of a tenancy agreement or a certification that the individual has been with family or friends.	Not specified	October 2016. This outcome will only be paid if an individual has been in sustained accommodation for 12 months prior to October 2015.

		If an individual abandons accommodation between the 12 to 18 month period, and is moved back into stable accommodation, they must remain there for a further 6 months to obtain the 18 month sustainability payment.			
Reconnection with home country	The client has voluntarily moved back to a destination outside the UK, such as their home country of origin. The provider may also be involved in reconnecting those when enforcement action has been taken by the UKBA.	The provider must show it engaged with the individual over the reconnection, but arrangements can be made through another service or the UK Border Agency.	The evidence submitted should use a standard GLA template and must demonstrate: 1. Evidence of travel to a destination outside the UK, such as copies of the individual's travel documentation. 2. Evidence of sustainable accommodation at destination. Acceptable documentation includes: letter from family or friend confirming a place to live, or a landlord confirming an agreement was made. No tenancy evidence agreement is necessary is but will be accepted. 3. Evidence the individual has moved into accommodation. Can be verified by a telephone call to	Not specified	October 2015

			family, friends, or a landlord, or the individual.		
Sustained reconnection in home country	The client remains out of the country for 6 months after initial reconnection	If clients are not recorded bedded down rough sleeping in the 6 months following their date of departure from the UK by street outreach teams across London on the CHAIN database.	CHAIN database.	Not specified	April 2016
Secondary outcomes					
Supporting employment, education or training	To increase the number of individuals that achieve: • an NQF level 2 or equivalent qualification; • sustained volunteering or self-employment (for 13 weeks and for 26 weeks); • sustained part time employment (for 13 weeks and for 26 weeks); or • sustained full time employment (for 13 weeks and for 26 weeks)	To qualify for a payment, the NQF level 2 or equivalent (as defined by the government) commencement must follow the point of first contact of contract start date. Volunteering is defined as at least 8 hours per week (which can be averaged over the 13 and 26 week period provided the minimum is met). - This can include work experience provided the placement has a clear role description, supervision by a paid member of staff and paid expenses. Self-employment is defined as 8 hours per week as self-employed (which can be averaged over the 13 and 26 week period); if the number of hours cannot be established, the income equivalent of at least 8 hours at the minimum wage will be used as payment threshold. Part time work is defined as 8-16 hours per week and full time work is defined as more than 16 hours per week.	Certificate of qualification To claim work experience as volunteering, the provider must submit evidence work experience provided the placement has a clear role description, supervision by a paid member of staff and paid expenses. Self-assessment tax return for self-employment or HMCR tax statement, or receipts and invoices for the self-employed work carried out. Evidence provided as proof of employment should be a payslip or employment contract.	Maximum of 1 time per outcome sub-metric (e.g. payment can be made for volunteering (13 and 26 weeks), then full time employment (13 and 26 weeks) and part time employment (13 and 26 weeks).	After October 2015, providers can claim for the next outcome but no further claims can be made (e.g. if an individual has been in part time work for 8 weeks, a claim for 13 weeks can be made in December 2015 but the provider cannot claim a payment for 26 week sustainment.

		If the client is already in employment at the start of the contract then the 13 and 26 week periods the commencement period will begin from the latter of the point of first contact or the start of the contract (unless the individual was employed for longer than 26 weeks). Employment payments cannot be made for individuals that were reconnected abroad. The 13 and 26 week periods can be cumulative so there is no need to account for gaps in employment or volunteering. Employment and volunteering payments can be claimed concurrently but part time and full time employment cannot be claimed concurrently.			
Improved health	A reduction in A&E episodes associated with the cohort compared to a baseline[5].		Not specified beyond suggestions they will compare it to data from the NHS information centre.	Not specified	Not specified

[1] The historic baseline figure is based on CHAIN data for historic cohorts generated with the same criteria. The baseline figure is based on the adjusted historic performance for the first four quarters after cohort generation, which was averaged to produce an average yearly figure for quarterly use. This was 31% (n=108) in year 1, 16% (n=55) in year 2 and 11% (N=38) in year 3.

[2] This applies to any bedded down sighting, so outcome payments are only made for clients not seen rough sleeping (clients seen bedded down once or every night of the quarter are ineligible for payments)

[3] The provider must fill in a standard GLA template with details if a cohort member is convicted of an offence.

[4] The point of first contact is not clearly defined in the contract so it is unclear what qualifies (first contact ticked off in CHAIN? No evidence needs to be submitted to validate that this occurs.

[5] The baseline was to remain constant throughout the intervention. The baseline was expected to be generated after the contracts were awarded and it is unclear how soon they ran into issues with establishing the baseline for use in this metric.