

Preparing a social impact bond in a Nordic welfare state: governance challenges and hybrid responses

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Abstract

Purpose – This study aims to examine the preparation of a complex Social Impact Bond (SIB) project in Finland, exploring how challenges and solutions reflect the interplay between new public management (NPM) and new public governance (NPG) logics. It contributes to debates on the institutional adaptability of SIBs beyond Anglo-American contexts.

Design/methodology/approach – The authors conduct a longitudinal case study of the Children's SIB II in Finland, analysing data from 21 stakeholder interviews. Five preparation phases are identified and examined for governance dynamics and challenge-response logics.

Findings – The findings show how SIB preparation involved hybrid governance, combining NPM tools, such as performance-based incentives, with NPG principles like trust-building and cross-sector collaboration. While many challenges were initially framed through NPM logics, their resolution often leaned towards NPG-style responses, highlighting the adaptive use of relational governance practices. A key insight is the critical role of a publicly funded intermediary in framing the SIB, mobilizing networks and embedding the instrument within national welfare discourses.

Social implications – Hybrid governance tools like SIBs can reinforce trust-based public-private cooperation and support developing responses to complex social issues, but they also require significant institutional capacity.

Originality/value – This study extends the literature on SIBs by examining their preparation in a Nordic welfare state context, distinct from the Anglo-American settings where SIBs have been most studied. It contributes novel insights into how hybrid governance unfolds in such contexts, particularly how NPG-style solutions emerge even when problems are framed through NPM logics. It also highlights the overlooked role of public institutional intermediaries in shaping SIB development beyond technical and financial coordination.

Keywords Governance, Case study, Joint procurement, Public private partnership, Performance measurement, Performance management

Paper type Research paper

1. Introduction

Public procurement is increasingly used not only to minimize service delivery costs but also to address social and environmental challenges. Recent literature highlights its potential for tackling grand challenges, such as climate change and social exclusion (Boon and Edler, 2018;



Uyarra *et al.*, 2020). These complex issues require collaboration between the public and private sectors, prompting public procurers to explore innovative strategies, such as co-creation, crowdsourcing, innovation partnerships and contests (Colovic *et al.*, 2022; Iossa *et al.*, 2018; Pihlajamaa and Merisalo, 2021; Torvinen and Ulkuniemi, 2016).

Over the past decade, social impact bonds (SIBs) have gained attention as outcome-focused contracting tools aimed at improving public services and addressing social issues (Tekula and Andersen, 2018; Warner, 2013). In SIBs, private investors finance public services to prevent social problems and are repaid from public sector savings, benefiting both parties. Studies have explored various SIB aspects, including metrics (Mitchell, 2017), cost structures (Tse and Warner, 2020), business models (La Torre *et al.*, 2019), evidence bases (Tse and Warner, 2020) and underlying ideologies (Fraser *et al.*, 2018).

SIBs face significant barriers, being described as complex and heavy (Mason *et al.*, 2017), suspicious (George *et al.*, 2020) and requiring substantial capabilities (Andersen, 2023). Many challenges arise during the preparation phase when key decisions on scope, contracts, collaborations, and knowledge bases are made. This phase is especially critical for large-scale SIBs addressing complex social problems (Sinclair *et al.*, 2019; Warner, 2013), as procurers must operationalize social goals, manage unpredictable processes and handle data infrastructures (Andersen, 2023).

Most SIB experiences come from neoliberal welfare regimes like the UK and the US, where they are used to outsource welfare programs (Andersen, 2023). There, SIBs are linked to the new public management (NPM) paradigm, which relies on market incentives and accountability to drive efficiency (Fraser *et al.*, 2018; Jamieson *et al.*, 2020; Warner, 2013), shaping how SIBs are viewed and designed. In contrast, others argue SIBs can reflect new public governance (NPG) principles, emphasizing social innovation, partnerships and cross-sector collaboration (Barraket, 2020; Bhatia *et al.*, 2025; French *et al.*, 2023; Joy and Shields, 2013; Ormiston *et al.*, 2020; Osborne, 2007). These studies see SIBs as vehicles for long-term outcomes through collaborative innovation and inter-organizational relationships, aligning with recent literature on procurement's strategic role in partnerships, experimentation and cross-sector learning (Chicot and Matt, 2018; Flanagan *et al.*, 2022; Pihlajamaa and Merisalo, 2021; van Winden and Carvalho, 2019).

Recent work emphasizes that SIBs vary according to the welfare regime (Fraser *et al.*, 2023; Hajer and Chen, 2024). Actor roles, relational dynamics and institutional settings differ, influencing SIB goals and design. Although preparation tasks like problem definition and indicator development are common, they are shaped by differing views of the instrument. Compared to Anglo-American countries, where SIBs reflect market-driven reforms, and central-European contexts like France and The Netherlands, where they have been cautiously integrated as incremental tools within state-led welfare systems, Finland stands as an outlier (Hajer and Chen, 2024). Finnish SIBs are fewer but larger, led by the public sector and aimed at systemic welfare reform, offering a distinct case for studying SIBs. When SIBs often combine NPM and NPG elements, existing research shows that NPM elements tend to dominate (Dayson *et al.*, 2020; French *et al.*, 2023; Ogman, 2019). This study responds to calls to explore whether SIBs in contexts with weaker NPM influence gravitate more towards NPG principles, giving rise to distinct models of outcome-based procurement. More specifically, it contributes to emerging research on SIB variation by examining the preparation of Finland's Children's Welfare SIB II, seeking to answer the following research question:

RQ. In preparing a complex SIB in Finland, how do the challenges and their solutions reflect the elements of NPM and NPG?

2. Theoretical background

2.1 Social impact bonds as public procurement

Public procurement can address social problems in several ways. It promotes efficient use of public funds, strengthening the financial basis for social services (Martin, 2002), and can incentivize innovation, improving technologies and services (Edler and Georghiou, 2007). Social procurement allows public organizations to generate social value directly – by buying from non-profits – or indirectly by requiring suppliers to employ individuals in vulnerable labour market positions (Barraket, 2020). Procurement is increasingly viewed as strategic in addressing grand challenges (Boon and Edler, 2018; Merisalo et al., 2024; Uyarra et al., 2020), prompting experimentation with new methods and public-private partnerships (Colovic et al., 2022; Iossa et al., 2018; Pihlajamaa and Merisalo, 2021; Pihlajamaa and Valovirta, 2024; Torvinen and Ulkuniemi, 2016). However, most studies focus on environmental challenges, with less attention to social sustainability (Valovirta and Pihlajamaa, 2025).

SIBs have emerged as a novel procurement tool for addressing social problems. Outcome-based contracts, including SIBs, have been studied for their potential to improve efficiency, innovation, and social and environmental outcomes (Musso and Weare, 2020; Selviaridis and Wynstra, 2015). SIBs are expected to introduce new approaches to delivering social services and foster partnerships between the public, private and third sectors, although a growing body of critical literature questions these claims (Fraser et al., 2018; Sinclair et al., 2019).

SIBs differ from other outcome-based contracts by linking social and financial returns and involving external investors (Albertson et al., 2020). Figure 1 illustrates the typical SIB structure (Tiikkainen et al., 2022). A public organization purchases services to address a costly social problem. Private investors provide funding to an intermediary (1), who negotiates a contract with the public organization and finances service providers (2). An independent evaluator assesses the outcomes (3) generated by the services (4) and the rate the intermediary (5) – and ultimately the investors – are paid based on results (6). SIBs reflect recent trends in public procurement, including shifting focus from products to outcomes (Koivisto, 2018), fostering cross-sector collaboration (Casady and Baxter, 2022), and improving value for money (Flynn, 2018). Still, real-world projects often diverge from this ideal model (Carter, 2020; Economy et al., 2023).

2.2 Challenges in preparing social impact bonds

SIBs have attracted public attention for their promise of “win-win” solutions for governments, investors, companies and beneficiaries, and for driving innovation and public sector reform (Fraser et al., 2018). However, others questioned these claims, citing limited evidence of their effectiveness in producing social outcomes (Fox and Morris, 2019; Tan et al., 2021; Warner, 2020; Wilson et al., 2020). Since critical decisions shaping SIBs’ potential are made during the preparation phase, understanding the challenges actors face and how they can address them is essential (Maron and Williams, 2023).

The high transaction costs are a common concern (Carè et al., 2020; Carè and de Lisa, 2019; Edmiston and Nicholls, 2018; FitzGerald et al., 2019; Gruyter et al., 2020; Maier et al., 2018; Warner, 2020, 2013). SIBs are complex and “must be individually structured, negotiated, and managed” (Bergfeld et al., 2019, p. 3), leading to significant expenses. Their success depends heavily on well-designed contracts, making the preparation phase particularly important (Albertson et al., 2020) – especially for large projects or those requiring new knowledge bases (Warner, 2013).

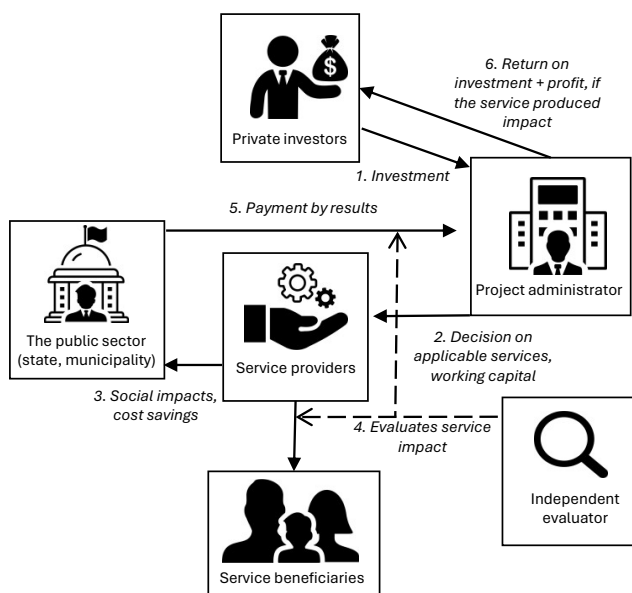


Figure 1. The impact bond structure
Source: Adapted from [Tiikkainen et al. \(2022\)](#)

A key challenge in SIB design is defining measurable outcomes ([Fraser et al., 2018](#)). While SIBs aim to prioritize outcomes over processes, consistently identifying and assessing these outcomes is difficult and varies by case. Public organizations must choose indicators that incentivize service providers without encouraging “gaming” the system ([Tse and Warner, 2020](#)). Striving for perfect metrics can be costly ([FitzGerald et al., 2019](#)), and there is a risk of oversimplifying complex social challenges into easily measurable issues ([Sinclair et al., 2019](#)). Some advocate for standardized SIBs for scalability ([Antadze and Westley, 2012](#)), while others stress tailoring to local contexts ([Lowe, 2020](#); [Nazari Chamaki et al., 2018](#)).

Poorly prepared SIBs may fall short, failing to deliver intended outcomes or cost savings ([Tse and Warner, 2020](#)). In practice, many SIBs deviate from their ideal form, lacking innovation, targeting narrow interventions over broad outcomes, failing to transfer risk to private actors and addressing symptoms instead of root causes ([Arena et al., 2016](#); [Fox and Morris, 2019](#); [Sinclair et al., 2019](#)). SIBs aim to balance conflicting goals, such as cost efficiency with risk transfer or promoting evidence-based decision-making with flexible service delivery. However, little is known about managing these tensions ([Maier et al., 2018](#)). Resistance may also arise as SIBs reshape resource flows, power dynamics and autonomy within government, potentially raising concerns about investor motives ([Maron and Williams, 2023](#)).

Previous studies have suggested elements like co-creation, experimentation, and crowdfunding to support SIB preparation ([Albertson et al., 2020](#)), but their applicability across different phases and contexts remains uncertain. As a novel instrument, SIBs often demand significant organizational change, and if new practices clash with existing rules and norms, the initiative may fall short of its potential ([Lowe et al., 2019](#)). Understanding the

challenges public organizations face in launching SIBs and how to overcome them is crucial for effective preparation (FitzGerald *et al.*, 2020).

2.3 *Welfare regimes as contexts for social impact bonds preparation*

Most empirical SIB research has focused on neoliberal welfare regimes like the UK and US, where the public sector meets basic needs, and the third sector addresses market and state failures (Defourny and Nyssens, 2010; Ferragina and Martin, 2011; Fraser *et al.*, 2023; Social Finance, 2021). In these settings, SIBs are often linked to NPM principles and austerity measures (Maron and Williams, 2023), emphasizing private sector involvement and using performance management and market incentives to improve public sector efficiency (Dowling, 2016; Sinclair *et al.*, 2019, 2014).

Recent discussions suggest that the implementation and challenges of SIBs vary across welfare regimes (Dayson *et al.*, 2020; Fraser *et al.*, 2023; Hajer and Chen, 2024). Ormiston *et al.* (2020) argues that institutional contexts shape SIBs' character, making standardized transfers across countries unfeasible. Fraser *et al.* (2023) highlight that SIBs are designed to address local welfare challenges and reflect compromises among actors with differing roles, interests and priorities. Andersen (2023) portrays SIBs as "scripts" open to multiple interpretations. Similarly, Tan *et al.* (2021) describe them as strategically ambiguous policy tools that can be framed differently for different audiences.

While the dominant interpretation of SIBs aligns with NPM – breaking down public sector goals into measurable objectives and incentivizing performance (Fraser *et al.*, 2018; Warner, 2013) – recent research suggests more variety. Some SIBs also exhibit features of NPG, including trust-building, inter-organizational collaboration and a shared approach to public service delivery across sectors (Dayson *et al.*, 2020; French *et al.*, 2023; Hevenstone *et al.*, 2023). Table 1 outlines a stylized comparison of SIBs under NPM and NPG governance logics.

Comparative studies offer deeper insights into how welfare regimes – defined by different arrangements between the state, market and citizens (Esping-Andersen, 1990) – shape SIB adoption. In non-NPM contexts, like Denmark, Andersen *et al.* (2022) show that SIBs can integrate public authorities and external providers, moving beyond typical outsourcing. Hevenstone *et al.* (2023) report that Switzerland and the Netherlands employ hybrid models, blending NPM-style contract incentives with NPG features, like goal alignment and collaboration. Maron and Williams (2023) show that despite global promotion, SIBs often encounter resistance due to tensions between financial innovation and public sector routines. Their study of the UK, Canada and Israel highlights how institutional politics and cultural mistrust constrain financialization, even in liberal, NPM-dominant settings. Kuitert *et al.* (2024) argue that how actors interpret challenges – whether as technical problems amenable to NPM tools or as collaborative dilemmas suited to NPG – shapes governance choices and allows multiple logics to coexist within a single process. Hajer and Chen (2024) add that high SIB uptake occurs both in market-driven systems and in those with strong state coordination. Rather than applying a uniform model, countries adapt SIBs to their administrative cultures and reform paths.

This may explain why Nordic countries adopt SIBs selectively and with public actors in central roles, emphasizing coordination over market logic. Hajer and Chen (2024) identify Finland as a notable case with some of the largest SIBs by investment per bond and unusual features like public sector actors as investors, intermediaries, and even service recipients. These features suggest a distinct, state-led model rooted in Nordic welfare traditions, meriting closer examination.

Table 1. NPM and NPG orientations in SIBs

Dimension	NPM orientation	NPG orientation
Governance logic	Marketization, increasing private-sector involvement, competitive relationships and public-sector efficiency (Albertson et al., 2020 ; Dunleavy et al., 2006 ; French et al., 2023)	Relational governance, collaboration, multi-stakeholder networks and shared expertise across sectors. Priority on mutual understanding and long-term partnerships (Dayson et al., 2020 ; Osborne, 2007 ; Woolridge et al., 2019)
Service delivery model	Focuses on outcomes and performance-based contracting, service outsourcing, detailed contracts, and promoting firm incentives and competition (Albertson et al., 2020 ; Dunleavy et al., 2006 ; French et al., 2023)	Emphasizes the involvement of multiple stakeholders, holistic management through long-term inter-organizational partnerships, cross-sector collaboration, and co-produced public services (Albertson et al., 2020 ; Dayson et al., 2020 ; Fraser et al., 2019 ; French et al., 2023)
Purpose and value-framing	SIBs are understood as efficiency-oriented mechanisms shaped by private sector management practices and aimed at introducing market-like discipline and external financing into the public sector (Albertson et al., 2018 ; Edmiston and Nicholls, 2018 ; Fraser et al., 2018 ; French et al., 2023)	Driven by a commitment to public value, SIBs are viewed as instruments to promote social and public innovation, co-creation and end-user benefits (Dayson et al., 2020 ; French et al., 2023 ; Ormiston et al., 2020)
Role of outcome metrics	Translates public sector goals into measurable objectives, using performance indicators as extrinsic motivators to assess and control the outcomes of specific actors (Dayson et al., 2020 ; Dunleavy et al., 2006 ; French et al., 2023 ; Warner, 2013)	Outcome metrics inform involved stakeholders, supporting shared learning, guiding collective progress, and enabling joint accountability (Dayson et al., 2020 ; French et al., 2023)

Source(s): Authors' own creation

Like other Nordic countries, Finland has an institutional welfare state where public authorities remain central to delivering social and welfare services ([Saari and Tynkkynen, 2020](#)). The system remains grounded in traditional public administration, emphasizing legality, bureaucracy, and the separation of politics and administration. It is also characterized by pragmatism, adaptability, and high trust in government ([Ejersbo et al., 2023](#)). In Finland, NPM introduced more corporate-style management, emphasizing input-output control, performance measurement, efficiency and the idea that the public sector need not produce all services ([Kyösti and Airaksinen, 2021, 2020](#)). Reflecting this shift, public debate has increasingly focused on maximizing the impact and efficiency of social policy within resource constraints ([Pennanen et al., 2024](#)).

Despite national support for public-private partnerships since 2007, cross-sectoral collaboration has often faced trust issues ([Tynkkynen, 2013](#)) and, as [Tirronen and Rannisto \(2016\)](#) note, has been hindered by limited partnership and procurement expertise and insufficient vision-based leadership. Overall, NPM and neoliberalism have arguably had a more limited impact on service provision in Finland than in many other countries ([Saari and Tynkkynen, 2020](#)). Reforms in Finland are described as being layered on top of one another

rather than new ideologies replacing earlier systems (Ejersbo *et al.*, 2023). Municipal and regional authorities still deliver most public services – including those for children and families – either independently, with other public bodies, or through private and third-sector providers (Pesonen and Riihinen, 2002). However, service-specific differences remain: for example, early childhood education and care are mainly publicly provided (Ruutiainen *et al.*, 2020), while institutional care and professional family care in child protection are largely outsourced (Eriksson and Harrikari, 2023).

Hajer and Chen (2024, p. 2657) classify Finland – alongside Sweden and the Netherlands – as a “modernizer” only “borrowing from the NPM policy menu”, focusing on progressive reforms through devolution and pluralistic networks. This distinguishes Finland from countries like France, being centred on management reform, and especially from Anglo-American countries, though Finland is also seen as shifting towards a neoliberal direction (Kokkonen *et al.*, 2018; Tiikkainen and Virtanen, 2025). In recent decades, NPG-style outcome-based procurement has gained ground, emphasizing communities and networks in policy implementation and service delivery (Hirvilammi *et al.*, 2023; Kyösti and Airaksinen 2021, 2020; Tirronen and Rannisto, 2016). These institutional features shaped conditions for SIB adoption: while NPM-inspired efficiency debates opened the door to outcome-based models, Finland’s SIBs were strongly championed by well-connected individuals and organizations aiming to strengthen preventive care and address service fragmentation (Kyösti and Airaksinen 2021, 2020; Nordin and Johanson, 2025; Pennanen *et al.*, 2024).

3. Case description

Finland is seen as a leader in innovative procurement (European Commission, 2021), though buyer-supplier interaction still needs improvement (Heikkilä *et al.*, 2024). SIBs were adopted only recently, with five projects launched between 2015 and 2021. A key actor in building the SIB ecosystem has been Sitra, an independent public organization promoting Finland’s renewal, wellbeing, and economic growth. Sitra operates under the Sitra Act (Finlex 717/1990) and is funded through its investments, originally capitalized by the state. Politically and financially independent, Sitra is not under direct government or ministerial control and holds the same legal status as other independent public institutions. It played a central role in adapting the SIB model to Finland’s administrative systems and traditions (Kyösti and Airaksinen, 2020).

Sitra framed SIBs as tools to tackle broad societal issues like health, wellbeing, and the financial strain of an ageing population – topics with broad consensus. As part of its public sector development mission, Sitra acted as a facilitator, organizing workshops to identify key challenges and recruit interested public actors. From the start, it positioned SIBs as policy innovations for addressing complex problems, not just outsourcing tools for efficiency. In a background interview for this study, one key actor described this shift:

We often compared ourselves to the UK and the US, but the more I understood the context, the clearer it became that their models couldn’t be directly copied due to fundamentally different starting points. Instead, we began to see the SIB not merely as a contract model, but as a form of impact procurement – a means to support systemic change by reinforcing what already works and contributing to developing a more genuine welfare state.

The Children’s Welfare SIB II project’s planning began informally in 2018 and officially in 2019. Tendering took place in 2020, and the project launched in May 2021. The public sector led the preparation through a partnership between Sitra (later the Centre of Expertise for Impact Investing (CEII) at the Ministry of Economic Affairs and Employment) and participating municipalities. FIM Impact Investing serves as the financial intermediary,

securing funding, coordinating partners, and managing the project's implementation. The Central Union for Child Welfare supports FIM as a subcontractor, while SOS Children's Villages, Helsinki Deaconess Foundation, and Nuorten Ystävät ("Friends of the Youth") deliver services. An external evaluator will later assess the project's impact.

The SIB commissioners include two larger municipalities, Jyväskylä and Tampere, and two smaller ones, Karkkila and Vihti, together with their joint social services federation, Karviainen. The SIB consists of three sub-projects:

- (1) Jyväskylä aims to reduce school dropouts in secondary and vocational schools. Targets include 70% of at-risk adolescents completing secondary education and a 50% reduction in out-of-home placements for 6th graders in the child protection risk group. Services support school attendance, academic success, and reduced absenteeism. Each child and family receives individually planned support, with families assigned a companion for four years to support school attendance, improve academic success, and reduce absenteeism.
- (2) Tampere seeks to improve education outcomes for adolescents in extra-familial care. The goals are 80% to complete secondary education and 80% to either work or study by age 25. Services include individual and group coaching, private tutoring and brief therapy, as needed. These complement, but do not replace, statutory services like after-care.
- (3) Karkkila, Vihti and Karviainen focus on strengthening family wellbeing through early preventive interventions at parental clinics, aiming to reduce the need for costly remedial services. Families receive support from dedicated employees and access to tailored services and group activities.

The Children's SIB II contract runs for ten years, targeting multiple cohorts over shorter periods. Investor payments are annual and impact-based, capped at €10 M for Jyväskylä, €6.5 M for Tampere and €1.6 M for Karkkila, Vihti and Karviainen. The long impact horizon makes effectiveness hard to assess, as results emerge slowly and are difficult to attribute. Yet, early findings indicate promising intermediate results (Westman, 2024). Despite earlier preparations, no new SIBs have been launched since (Tiikkainen *et al.*, 2022). SIB promotion responsibilities shifted from Sitra to the CEII in 2020 and to Motiva – a public sustainable development company – in 2022, now under the broader theme of "impact management" (Tiikkainen and Virtanen, 2025).

4. Methodology

We use a single-case approach to examine SIB preparation in a Nordic institutional welfare state, allowing for in-depth data collection (Eisenhardt and Graebner, 2007). The focus is on Finland's Children's Welfare SIB II, aimed at improving the wellbeing of children, adolescents and families. The project faced significant preparation challenges due to limited national SIB experience, large scale, multi-municipality involvement and complex modelling for compensation logic, public benefits and performance metrics, making it an information-rich case (Patton, 2014).

To investigate preparation challenges and solutions, we conducted 21 semi-structured interviews between May 2020 and April 2021 with municipal representatives, coordinators and service providers, identified with CEII's help. The research team was independent of the project's design or evaluation. Interviews covered the project's background, expectations, preparation process, stakeholder roles, contract design, challenges and the SIB's broader transformative potential. Each lasted about an hour and was recorded and transcribed *verbatim*.

We use an abductive content analysis approach to explore surprising findings and relate them to existing frameworks (Timmermans and Tavory, 2012). Initially, we applied inductive coding inspired by grounded theory (Gioia et al., 2013) using NVivo, resulting in 40 codes related to actors, decision-making, goals, disagreements, innovation and risk.

We found the preparation process involved multiple stakeholders and unfolded in stages. Using temporal bracketing (Langley, 1999), we divided it into five phases based on distinct activities, challenges, and actors. To visualize the multi-actor dynamics, we created a timeline of stakeholder roles (Figure 2). We produced a 19,000-word case narrative, organizing insights by phase and transforming raw data into meaningful descriptions (Miles et al., 2013). This involved reviewing initial codes and reformulating insights into phase-specific activities, challenges and solutions, ultimately summarizing them into eight distinct challenges with corresponding solutions. We then examined how NPM and NPG elements (Table 1) appeared in both the problems and responses, revealing varied response logics (e.g. NPG-dominant solutions to NPM-dominant problem framings; see Table 3). The analysis involved continuous reflection and validation among the research team.

5. Different phases of the social impact bonds preparation process

5.1 Phase 1 – initiation

A key step in the Children SIB-II initiation phase was raising awareness and identifying problems (see Figure 1; Table 2). Sitra, and later the CEII, played a central role in promoting

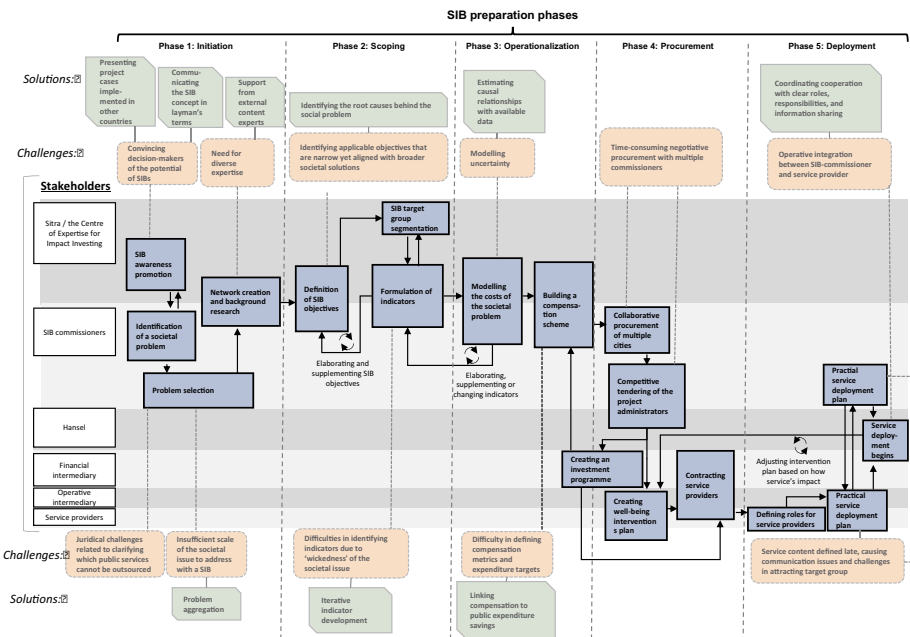


Figure 2. The preparation process with key activities, challenges and solutions. Blue boxes represent key preparation activities for each phase, red rounded boxes highlight the most critical challenges and green snipped-corner boxes indicate proposed solutions

Source: Authors' own creation

Table 2. A summary of identified challenges and their proposed solutions

Phases	Challenge	Solutions
1,2,5	<i>Legitimacy problems:</i> Decision-makers struggle to understand the SIB concept, measurements, and outcomes due to its complexity and limited data on its track record. There is political resistance to involving private investors in public services and challenges in shifting to an outcome-focused model without predefined services	Building trust by presenting examples from other countries; using simple language Engaging leaders from municipalities early in the process
2	<i>Lack of incontestable objectives and indicators:</i> There are no universally accepted indicators for measuring wellbeing outcomes, and the targeted societal issues seem too broad and ambiguous for the SIB. Aligning different views for suitable indicators is difficult	The novel outcome focus required broad stakeholder involvement to identify root causes and iteratively customize the indicators for each municipality
2,3	<i>Lack of data:</i> Insufficient data hinders the analysis of social problems and the development of an economic model for the SIB, exacerbated by privacy issues, lack of target group and peer group data and delays in accessing external data	Exploring the measurement of long-term outcomes through national statistics, manual data collection and developing internal data analytics capacity
3	<i>Modelling complexity:</i> Modelling social issues is challenging due to the complexity of Finland's welfare system, uncertainty about how the issue develops, limited knowledge of long-term effects, and difficulties linking interventions to reduced public expenditure	Using "rough" indicative models and leveraging available data to support stakeholder dialogue. Engagement in early discussions with service providers
3	<i>Monetizing the solutions:</i> Balancing the creation of effective economic incentives while avoiding sub-optimization, where service providers may prioritize easier tasks that yield quicker results over meaningful long-term impacts	Price segmentation; linking compensation to public savings and municipal benefits
1–3,5	<i>Changes in organizational culture and working practices:</i> Implementing an SIB introduces new legal and administrative tasks and requirements, demands changes in municipal operations, including adopting outcome-focused, end-user-centric approaches, which can disrupt existing practices and professional identities	Educating personnel to listen to end-users; raising wellbeing issues in discussions; guiding the end-user to use adequate services. Compensating employees based on SIB success
1–5	<i>Cooperation:</i> Issues like uneven contributions among municipalities, involving stakeholders too late, slow decision-making and personnel changes can disrupt collaboration among key actors. Guiding the target group individuals to participate in wellbeing services requires cooperation between SIB-commissioners and service providers	Sharing information and defining clear responsibilities, roles and schedules. Ensuring all relevant stakeholders are identified, involved and educated early enough
1–5	<i>Resource needs:</i> SIB preparation is resource-intensive, adding to personnel's existing responsibilities and causing resourcing issues. Diverse expertise is necessary, and reliance on key individuals poses a risk, as their departure can halt the project	Aggregating smaller issues into larger problems and pooling resources. Consulting external experts for team building and advice. Allocating a full-time project manager for the preparation project

Source(s): Authors' own creation

Table 3. Dominant challenge and solution logics

Response type	Challenge	Dominant challenge logic	Dominant solution logic	Representative quote
NPM → NPM	Lack of data	Challenge rooted in NPM logic: focus on efficient data-driven models conflicts with real-world limitations like privacy and availability	Solution relies on expanding data sources and analysis approaches, resembling NPM logic	“But making use of the existing data – and I’ll say it once more – the money has to be shown alongside it, how much the services actually cost. And that’s often a difficult conversation: when a child is in crisis, it’s hard to say, ‘yeah, this will cost 50,000 euros to deal with.’ But still, at some point in the process, that information needs to be available.” (NPM)
NPM → Hybrid	Monetizing the solutions	Challenge reflects NPM-style framing, emphasizing incentives and market logic	Solution blends NPM (incentive design) with NPG (public value focus)	“And even if there wouldn’t be any monetary savings, we can still offer those families with children and the children themselves an improvement in wellbeing, so it’s worth pursuing in any case.” (NPG)
NPM → NPG	Legitimacy problems	Challenge reflects NPM framing: focus on outcomes, metrics and private sector logic creates resistance and confusion	Solution uses NPG tools: trust-building, relational governance and contextual learning	“A project like this is, in some ways, politically divisive. When performance-based bonuses and similar topics come up, it raises questions – not strictly along left-right lines, but around the role of the public sector. What is the responsibility of public administration? Who gets performance bonuses, based on what criteria, and what’s considered fair? It also raises debates about how much public service development should involve external actors. It can definitely spark some tension.” (NPM)
NPM → NPG	Lack of incontestable objectives and indicators	Challenge arises from NPM logic: the need for standardized, measurable outcomes is at odds with the ambiguity of social issues	Solution is NPG-oriented as it emphasizes stakeholder participation and the contextual development of indicators	“Finding the right indicators is really difficult. Even if we find one that seems good, we must ask – is it too broad or too high-level? Or should we use smaller, more specific indicators? But if we have too many small ones, how do we combine them into a meaningful overall metric?” (NPM)
NPM → NPG	Modelling complexity	The challenge reflects an NPM logic by requiring complex social issues to be translated into quantifiable cost savings	The solution aligns with NPG principles by prioritizing flexibility, iterative learning and open dialogue over precise modelling	“It’s the complexity of how many different forms of support we have. Then, if we look at the root causes or the background factors that are usually present for a person, we do have a lot of registry data, but it’s incredibly hard to access, and it’s not in the right format” (NPM)
Hybrid → Hybrid	Changes in organizational culture and	Challenge emerges from the hybrid pressure of simultaneously	Solution mixes NPM (performance-based compensation) with	“The key is genuinely listening to families’ concerns, which often go unspoken by both officials and families. That means crucial issues

(continued)

Table 3. Continued

Response type	Challenge	Dominant challenge logic	Dominant solution logic	Representative quote
	working practices	adopting NPM (performance, accountability) and NPG (end-user-centricity, co-creation) elements, disrupting traditional service provision	NPG (learning and end-user orientation)	can be missed, and the help offered isn't enough. For example, domestic violence rarely comes up first when a family seeks help – it only surfaces after a long process. So it's about what we ask, how we listen, and whether support is offered often enough and with the right intensity when it's truly needed." (NPG)
Hybrid → NPG	Cooperation	Hybrid challenge: NPG tensions, like network coordination and interdependence, create governance complexity, whereas the concern over uneven contributions resembles NPM	Solution clearly follows NPG by emphasizing network governance and early stakeholder involvement	"I've ended up working with people I wouldn't normally have worked with. And because of that, I think the preparatory work has been much more comprehensive and diverse. We've genuinely looked into different perspectives in a way that we usually don't. Our procurement person even said that we've never done this thorough a background analysis for any procurement before." (NPG)
NPG → NPG	Resource needs	Challenge fits NPG: collaborative, adaptive structures demand intensive resource use and coordination	Solution resembles NPG, focusing on relational capacity-building and stakeholder management	"A successful preparation absolutely requires, in my opinion, multidisciplinary external support. I mean, to be honest, we wouldn't have gotten anywhere with this preparation without Sitra's support." (NPG)

Source(s): Authors' own creation

SIBs through events, framing them as innovative solutions to social issues. This helped align the project with local priorities, as one interviewee noted:

The core reason it was successful was that the SIB aimed to achieve a strategic goal of our city. It wasn't some separate initiative, but a goal we had already set earlier at the city level.

This phase also clarified legal responsibilities, with the SIB used to create new services rather than outsource existing public services. It was viewed as an experimental approach to address persistent social issues. Early challenges included questions of legitimacy – some raised ethical concerns about profiting from social issues, others questioned the model's unfamiliar logic. The lack of performance data, combined with complexity and uncertainty about public expenditure, made decision-makers and investors cautious. These concerns required trust-building and simplification, supported by communication and international examples.

After deciding to use the SIB instrument, the commissioners focused on identifying a suitable social issue. They selected children's and adolescents' wellbeing, citing high child protection costs and the need for early support. However, the smallest municipality found the issue's scale too limited for an SIB. To expand the target group and scope, they invited a neighbouring municipality and a joint municipal board. This scaling, based on voluntary

participation, helped overcome an early cooperation challenge and kept the process locally driven and politically feasible.

The preparation phase progressed through research and analysis to define the problem. Given the issue's complexity, a network was formed, including wellbeing, health, financial, and management experts from the municipalities, and SIB specialists from Sitra. Broad participation encouraged mutual learning and built trust in the instrument.

Interviewees emphasized the value of external support in problem analysis. Some preferred relying on consultants to fill skill gaps, while others saw in-house expertise as key to strengthening organizational learning. Ultimately, knowledge was co-created through both. Cross-sectoral collaboration reduced dependence on individuals but slowed progress due to differing organizational procedures, as one interviewee noted:

When multiple organizations cooperate, decision-making becomes more complicated. Municipalities have different procedures, leading to added bureaucracy, which makes approval and overall consolidation more complex.

5.2 Phase 2 – scoping

At the start of the scoping phase, small core groups, comprising Sitra experts and 2–4 municipal representatives, began defining the SIB's objectives, drawing on earlier research. The central goal was to improve the wellbeing of the target group, requiring expertise in both wellbeing services and the SIB model. Interviews were also held with beneficiaries, such as adolescents in extra-familial care, and wellbeing experts, including representatives from the Finnish Institute for Health and Welfare. A recurring theme was the fragmented nature of the existing service structure, seen as a barrier to early intervention and cross-sector coordination. The SIB was viewed as a way to address the lack of a holistic view and clear responsibilities:

In addition to the fragmented service structure, the biggest problem is that no one looks at the whole picture. Sometimes it feels like that in the end it doesn't really matter what clever tricks or practical methods you use; the essential thing is that someone understands and keeps track of the whole.

Setting incontestable objectives and indicators was essential, as they later defined performance criteria for investors and service providers. Interviewees described this as challenging – especially in balancing a long-term outcome focus with addressing broader societal issues. Objectives needed to promote impact and reduce future costs, yet be specific enough for monitoring and aligning incentives. This tension is captured in the following quote:

It was fundamentally challenging to find the right measurable goals; they need to be challenging yet measurable.

Formulating indicators for the commission was difficult due to EU procurement rules requiring transparency, precise definitions, and unambiguity. The complexity of wellbeing issues – hard to isolate, measure, or attribute to specific interventions – further complicated the task. Additionally, legal constraints on personal data usage posed challenges.

Solving this required intensive collaboration. Municipal and national wellbeing experts, together with SIB specialists, co-developed outcome indicators that were technically sound, legally compliant, and locally relevant, also drawing on input from end-users and frontline professionals. The data used to define objectives and indicators also helped identify the target

group, with segmentation emerging as a secondary activity during the process, highlighting which demographic groups generated the most public expenditure.

5.3 Phase 3 – operationalization

The core group began constructing a quantitative model based on the selected objectives and indicators in this phase. The goal was to estimate the long-term costs the societal issue imposed on municipalities. The model had two key components: the incidence of the issue in the population and the cost per incidence. The model used and refined existing variables through collaboration with municipal wellbeing and health experts.

The model aimed to ensure financial accountability and enable performance-based financing by quantifying the problem in monetary terms. However, privacy regulations restricted analysis of service use and costs, and the lack of peer group data hindered comparisons. National and municipal statistics were used where possible, supplemented by manual data collection. The model served multiple purposes: estimating baseline costs, projecting scenarios, and linking payments to demonstrable savings.

The team faced modelling complexity, as forecasting long-term social costs was highly uncertain. Despite efforts, the link between interventions and public savings remained unclear. Since technical models could not fully capture real-life complexity, the group adopted a pragmatic approach, using rough but sufficient estimates to guide decisions. Trust among actors enabled progress despite gaps in data, and an indicative model was seen as a starting point that could evolve. Key cost drivers were identified, and indicators were adjusted accordingly.

Next, the team monetized outcomes through a compensation scheme to define investor payment criteria. The main challenge was setting target levels acceptable to commissioners, investors, and providers. The design had to balance fiscal prudence with investor appeal. Municipalities feared low targets would trigger payouts for minor savings, while high targets might discourage participation. The compromise was to tie compensation to actual public expenditure savings, allowing municipalities to manage payments within existing budgets. One interviewee described the difficulty of establishing the scheme:

Well, the hardest part was defining the compensation scheme – what we're paying for, how to segment it, and ensuring it's viable for investors. There was constant back and forth on options, risks, and profitability.

The process relied heavily on technical and economic logic: defining units, calculating costs, and aligning incentives. Where this fell short, early service provider engagement, iterative adjustments, and open dialogue helped move things forward.

5.4 Phase 4 – procurement

After the operationalization phase, procurement of wellbeing interventions began. Smaller municipalities used a collaborative model where multiple procurement units worked together. However, cooperation was uneven: some units handled most responsibilities, while others contributed less but still benefitted, raising concerns about fairness.

Once ready, Hansel Ltd., the Finnish Government's central procurement unit, led the tendering using the competitive negotiated procedure. This included an information session, technical market consultation, and negotiation rounds between commissioners and potential intermediaries. The interactive format helped clarify expectations, incorporate provider input, and co-develop the service logic. This open dialogue improved tendering quality and reduced the risk of complaints. Although the multiple negotiation rounds required more resources, municipalities praised Hansel's facilitation of the collaborative process:

Every phase was clearly managed [...] they professionally handled contracts, technical details, and procurement steps. It's definitely worth involving a strong and capable organization with broad enough shoulders to manage the job.

FIM Impact Investing was chosen as the financial intermediary, and the Central Union for Child Welfare as the operative intermediary. Together, they formed a cross-sectoral partnership (private and third sector), responsible for managing SIB operations and financing. Service provider contracts remained open-ended, allowing new providers if outcomes were not achieved, reflecting a flexible, trust-based agreement rather than a fixed delivery plan. Success was seen to rely on shared values, as one interviewee emphasized:

There are steering groups and various arrangements in place, but what matters is strong cooperation and trust, ensuring that everyone is working toward the same goals – for the benefit of children and young people.

5.5 Phase 5 – deployment

After contracting service providers, collaborative meetings were held to plan the wellbeing interventions, defining what would be delivered and by whom. Detailed discussions between providers, commissioners, and the Central Union for Child Welfare followed to plan implementation. These sessions aimed to align roles and explore ways to co-create value.

As services were finalized late in the process, commissioners faced two main challenges: getting staff and leadership to internalize the SIB's new goals and finding ways to engage the target group while integrating services into existing systems. The SIB introduced a new logic, focusing on results, involving external actors, and emphasizing end-user needs and early intervention. Interviewees noted this shift met organizational resistance and required strong leadership:

This project demands a change in the basic service workers. They must learn to listen to their users, raise issues, and guide them to new services early.

The deployment phase combined collaborative refinement with cultural adjustment. Integrating new services and operating models into established structures required not only coordination but also a shift in how roles, responsibilities and relationships were understood.

6. Governance logics in faced challenges and developed solutions

Preparing Children SIB II involved governance challenges that can be interpreted through NPM and NPG lenses (Table 3). Some reflected NPM concerns – measurability, efficiency, contract design – while others were rooted in NPG values like collaboration, stakeholder involvement, and trust. Several challenges were hybrids, shaped by tensions between these logics.

Notably, the logic of the response did not always match the logic of the challenge. NPM-framed issues, such as quantifying outcomes, were sometimes addressed with participatory, NPG-style solutions. In other cases, challenges and responses followed the same logic. This section outlines five patterns of interaction between problem and solution logics:

- (1) *NPM→NPM*. A clear example of NPM framing was the lack of data for outcome modelling and performance tracking. The response stayed within the same logic: extending data sources and refining analysis to enable continued quantification. The approach preserved measurability and efficiency as core principles without altering the underlying assumptions.

- (2) *NPM*→*NPG*. In several cases, challenges framed in NPM terms led to NPG-style responses. This happened when performance metrics and contracting tools met political sensitivities or complex, value-driven issues. One clear example was the legitimacy problem: scepticism towards private involvement and outcome-based models caused resistance among municipal actors. Instead of relying on technical justifications, the response emphasized trust-building, simplified communication, and developing a shared understanding. A similar shift occurred with indicator design and outcome modelling. Though framed as issues of standardization and precision, solutions emphasized stakeholder engagement, contextual adaptation, and embracing uncertainty, moving towards negotiated meaning rather than strict accountability.
- (3) *NPM*→*Hybrid*. Monetizing social outcomes and designing incentives, though rooted in NPM logic, led to a hybrid response. While the solution preserved performance-based elements like cost savings and investor payments, it also integrated broader concerns about public value and legitimacy, blending calculative tools with deliberation on public value.
- (4) *Hybrid*→*Hybrid/NPG*. Challenges like shifting organizational culture or coordinating municipalities involved both accountability and end-user-centricity. The cooperation challenge – balancing joint planning with uneven contributions – was addressed through NPG-style solutions, emphasizing early stakeholder involvement, mutual trust and network governance. In contrast, adapting working practices required a hybrid approach, mixing performative incentives with organizational learning and end-user responsiveness.
- (5) *NPG*→*NPG*. One challenge grounded in NPG logic was the high resource demands for maintaining collaborative structures. The response stayed within the same logic, emphasizing capacity-building, stakeholder coordination, and shared responsibility to sustain cooperation.

7. Discussion

Our study contributes to the growing literature on SIBs in non-NPM contexts ([Andersen et al., 2022](#); [Chiapello and Knoll, 2019](#); [Hevenstone et al., 2023](#); [Maron and Williams, 2023](#)) by exploring the SIB preparation process in a Nordic welfare state, which has been suggested to follow a distinct approach ([Hajer and Chen, 2024](#)). The findings demonstrate how NPM and NPG logics coexisted and interacted across preparation phases. Rather than aligning with one model, the case illustrated evolving hybrid governance dynamics (cf. [Kuitert et al., 2024](#)).

Previous research, mostly from Anglo-American contexts, suggests that SIBs often reflect NPM logic by emphasizing market incentives, measurable outcomes, and performance-based payment mechanisms ([Fraser et al., 2018](#); [French et al., 2023](#); [Warner, 2013](#)). These elements were clearly present also in the Finnish case. Modelling challenges, monetizing outcomes, and compensation design were grounded in problem framings arising from economic rationality, aiming to create incentives and demonstrate fiscal savings.

However, our findings reveal a more nuanced picture in Finland, where NPM features were embedded within a governance process shaped by NPG principles. Responses to faced challenges often centred on interorganizational collaboration, trust-building, and shared problem definition. Moreover, some challenges, such as those related to cultural changes and cooperation, were framed from an NPG perspective. The preparation process involved participatory

workshops, cross-sectoral working groups, and collaborative indicator development, pointing to NPG-style relational governance. Still, initial NPM perceptions were not replaced by NPG. Instead, the findings suggest a form of hybrid governance where both logics coexist (Ogman, 2019).

Several factors contributed to the leaning towards NPG in the preparation of the SIB. Most notably, Sitra played a foundational role in introducing SIBs in Finland, shaping how the instrument was framed and designed. Rather than promoting SIBs as market-based procurement instruments – a view more typical of Anglo-American settings (see Section 2.3) – Sitra, and later CEII, framed them as tools for systemic innovation and cross-sectoral learning. Their status as neutral public organizations, free from political agendas, helped build trust, while their facilitative role emphasized co-development, participatory planning, and alignment with improving citizens' welfare in the long term, resonating with NPG principles. This contrasts with the investor-driven or austerity-linked logics reported in other contexts (Dowling, 2016; Fraser *et al.*, 2018). Furthermore, it addressed long-standing challenges in the Finnish welfare system – fragmented service structures and ineffective preventive services – that have proven difficult to resolve through traditional public administration or NPM approaches, highlighting the need for alternative solutions (Nordin and Johanson, 2025; Saari and Tynkkynen, 2020).

Though not explicitly examined in this study, Finland's broader welfare state context, marked by high trust, openness, and adaptability (Ejersbo *et al.*, 2023), has been suggested to offer a favourable context for NPG-style outcome-based procurement. Tirronen and Rannisto (2016) note that outcome-based procurement in Finland emphasizes development orientation, collaboration with multiple providers, including the third sector, openness, and a strong focus on impacts. They link this to the country's experience with the purchaser-provider model, supporting close collaboration with private firms, and growing expectations for procurement to advance municipal and broader public sector strategies. Nordic welfare states, which often approach governance pragmatically rather than ideologically and combine multiple logics into complex hybrid and layered systems (Ejersbo *et al.*, 2023), may provide fertile ground for SIBs that blend NPM tools (like performance metrics) with NPG elements (like trust and co-creation), as seen in our case where collaborative processes were used to soften the harder edges of performance-based contracting.

Despite the early potential, the expected growth of the SIB market in Finland (Hajer and Loxley, 2021) has not materialized. The Children SIB II, launched in 2021, remains the most recent of five projects. Planned initiatives – including type 2 diabetes prevention, elderly people's autonomy, and environmental impact bonds on energy-efficient housing, promoting plant-based protein production, and nutrient recycling in agriculture – have all stalled. Explanations can be found for SIBs' poor fit with rigid municipal budgeting and governance structures, limited administrative capacity, and broader ethical concerns about market logic in public services (Kyösti and Airaksinen, 2021, 2020). Tirronen and Rannisto (2016) also highlight the significant resource demands, confirmed in our study, which have made municipalities dependent on external support from actors like Sitra. Politically, SIBs gained traction during the 2015 European refugee crisis as a pragmatic, apolitical tool for addressing fiscal and service pressures. However, as Pennanen *et al.* (2024) and Tiikkainen and Virtanen (2025) argue, this support was short-lived and lacked institutional anchoring, while their depoliticized framing limited SIBs' transformative potential and long-term political appeal. With the end of temporary funding for Sitra's and CEEI's SIB promotion, momentum has faded.

The Finnish case illustrates how NPG principles can be mobilized during SIB preparation, yet the lack of replication or institutional anchoring points to limitations in

sustaining or scaling such approaches. Local SIBs were highly customized, with limited transferability across contexts or administrative routines. Moreover, while trust and co-creation facilitated preparation, it is less clear how these relational modes endure over time or under performance pressures. French *et al.* (2023) describe how a UK SIB, launched with a hybrid governance logic, gradually drifted towards NPM dominance, highlighting the risk of reversion to hierarchical control mechanisms during implementation. Future research should explore whether NPG-inspired designs in contexts like Finland can be maintained through later stages and identify what institutional conditions or policy tools could enable broader adoption without undermining local responsiveness.

Finally, existing literature has emphasized the central role of specialist intermediaries in SIB development, typically focusing on non-profit or for-profit actors that manage contracts, secure investment, and build markets (Fraser *et al.*, 2018; Hajer and Loxley, 2021; Williams, 2020). While some studies note their involvement in advocacy and outcome framing, intermediaries are still largely framed as technical actors focused on finances and contracts. In contrast, our case highlights a different model: a publicly funded intermediary, separate from the financial and operative intermediaries. Sitra played a formative role in framing the SIB model, mobilizing networks, and embedding the instrument within national welfare debates. This broader “institutional intermediary” function (Logue *et al.*, 2024) shifts attention from project-level coordination to broader public agenda-setting, trust-building, and long-term systemic innovation – areas still underexplored in existing SIB research. Future studies could investigate how different types of intermediaries operate across welfare regimes and what roles they play in shaping and maintaining the institutional conditions for outcome-based procurement.

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