



# Institutional constraints on conservation auction: Organizational mandate, competencies and practices



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## ABSTRACT

Auctions appeal to analysts and policy designers because of their potential efficiency in recruiting new areas for nature conservation. The failure to develop genuine auctions and competitive tender processes is typically blamed on the design and the attractiveness of the instrument. However, the institutional constraints that a new competitive mechanism faces when placed in a real-world ecological-institutional setting are only partly anticipated by the theoretical and analytical approaches. This paper explores the theory-based principles of cost-effectiveness against a real-world auction instrument designed for forest biodiversity conservation in Finland. The instrument, called “*Natural Values Trading*”, specified that the tenders should be invited and compared on an annual basis but the competitive procedure was not operationalized. Instead, sites were evaluated on a first come – first serve basis, applying ecological criteria and pricing based on opportunity costs. The institutional constraints of the auction mechanism centred on the difficulty that public authorities geared toward implementing law and treating citizens equally faced with a competitive arrangement. The pressure to generate instant impact overrode experimenting with new mechanisms and exiting an administrative comfort zone. The findings conform to the institutional theories that identify challenges with matching organizational mandate, reallocating and developing organizational competencies as well as changing informal organizational and professional practices. The design of biodiversity conservation mechanisms will not go far by focusing solely on cost-effectiveness; instead, the institutional friction should be taken seriously and organizational mandates, competencies and practices should be addressed explicitly.

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## 1. Introduction

Biodiversity conservation is largely driven by governments and public sector actors although it is a collective goal – and a general quest for ways to engage a broad range of actors in the conservation efforts can be identified (Primmer, 2011a; Young et al., 2012). With public sector budgets being severely limited in all types of economies, there is pressure to allocate the scarce funds efficiently, based on clear principles (Wünscher and Engel, 2012; Whitten et al., 2013). Cost-effectiveness is sought by complementing – or replacing – top-down command and control mechanisms with more competitive ways to recruit new sites for nature conservation. Auctions and tender competitions are archetypical examples of competitive mechanisms. In addition to their potential efficiency, auctions appeal to analysts and policy designers because they match the ideas of liberal market-based governance and institutions (Norgaard, 2010; Vatn, 2010). But how realistic are the ideas

of auctions and to what degree can they be met in practical applications in genuine ecological-institutional contexts? How are the organizations that should implement the competitive mechanism equipped to operationalize and carry through the auctions? With the rising popularity, analytical attention should be directed at the institutional feasibility of competitive mechanisms. To examine the institutional constraints to operationalizing a new auction-like policy instrument, this paper uses a real-world competitive tender instrument, which has been established but not applied in practice. In addition to the cost-effectiveness principles, the focus is on the organizational aspects, the mandates, competencies and practices.

Institutions condition the implementation of a new instrument. Formal legal constraints can bind the application of auctions, as higher-level regulation might set limits for developing and testing new competitive mechanisms. The new mandates should match the institutional framework at different levels and also across different sectors. If the implementing organizations get new mandates that do not match their earlier core tasks, they will need new competencies. Finally, even the new mandates and competencies might be constrained by rigid organizational practice. The analysis of institutional constraints should pay attention to the mandates,

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competencies and practices of the implementing organizations at the different levels of administration.

If an auction attracts a sufficient number of tenders for comparison and the criteria are transparent and applied systematically, the process should generate cost savings and/or lead to more positive ecological and social impacts as compared to a list price arrangement; by targeting such efforts that deliver high outcomes relative to the investment. To this end, the public administration organizations using auctions should invite tenders from eligible bidders and apply fixed tender selection criteria to compare and order the competing tenders (Latacz-Lohmann and Hamsvoort, 1998; Wunder, 2007; Whitten et al., 2013). In an auction setting, the comparison should be done across several tenders that would have been submitted as a response to an invitation. The tenders would be funded until the budget cap or the desired conservation has been reached. Auction theory suggests that the policy designer or the implementing organization does not need to have prior knowledge about the costs of conservation because the bids will reveal these (Latacz-Lohmann and Hamsvoort, 1998). The bidders evaluate the costs they experience, including opportunity cost and any other loss, when entering the deal. If there are multiple bidding rounds, or if the bidders share experiences, the bidders adjust their views on costs in ways that the designer of the mechanism cannot control (Hellerstein, 2017).

The comparison of tenders should be done against at least one of the following cost and benefit criteria: the cost of the required investment; the opportunity cost of conservation, i.e. the forgone economic gain; the baseline status of biodiversity; and the additional conservation impact, i.e. the (assumed) ecological outcome compared to no conservation (Ferraro and Simpson, 2002; Wünscher and Engel, 2012; Whitten et al., 2013). The ways in which – and the degree to which – cost-effectiveness criteria influence the implementation of the competitive instrument should be a target of attention. Ecological criteria for measuring conservation success can be difficult to design so that they are easily comparable and allow ranking of tenders by the implementing organizations. The ecological context of the different tendered sites might vary in ways, which do not allow ordering (Whitten et al., 2013). With scarce public budgets, the conservation programs might target a very broad range of habitat types or conservation activities. In such a situation, the auction can attract tenders that vary in ways that do not permit formal comparison of the potential ecological impact. As an example of the gap between ecological criteria design and practical application are the spatial criteria. The spatial allocation and connectivity among conservation sites has recently been emphasized as an important factor to be included in tender evaluation although different species have different connectivity requirements (Juutinen et al., 2008; Lehtomäki et al., 2009; Reeson et al., 2011; Barton et al., 2013; Bryan and Crossman, 2013). Yet also the spatial criteria remain to be evaluated by those organizations and experts who implement conservation auctions and evaluate tenders.

In addition to ecological and economic impacts, auctions generate also social impacts. The positive and negative social impacts; i.e. the distributional impacts as well as the ways in which people perceive conservation and behave in their community, are largely side-effects that are not targeted explicitly by the auction (Paloniemi and Varho, 2009; Greiner and Stanley, 2013; Narloch et al., 2013; Primmer et al., 2014). To account for social impacts and to add to the fairness of the mechanism, cost-effectiveness criteria can be supplemented with social criteria (Pascual et al., 2010; Narloch et al., 2013). The application of social criteria poses yet another challenge on the implementing organizations. Fairness, legitimacy and social impacts can be very difficult to operationalize and evaluate because they are typically not explicitly stated in policies but are rather deeply embedded in the culture and institutions

of their application context (Corbera et al., 2009; Primmer et al., 2013). Finally, despite an attempt to develop discrete tender evaluation criteria, the criteria are bound to be connected. For example, very fertile habitats might be endangered and fragmented because of a historical tendency to convert fertile lands to agriculture or forestry use. The same sites are likely to have the highest opportunity costs and they might be appreciated as culturally valuable by local inhabitants and land-owners. Their governance is likely to be steered by authorities whose formal mandate is not primarily focused on conservation (Primmer and Wolf, 2009; Wolf, 2013). The ways in which different impacts are considered in assessing the costs and benefits merit analytical attention.

Despite the difficulty in measuring costs and impacts, auctions receive a growing amount of academic and policy attention. The research community and the policy-makers are interested in the cost-effectiveness and the intricacies of the auction design. Pilots for auctions are included in real world policy instrument mixes (European Commission, 2005; OECD, 2010). An example of such a pilot in Finland is the conservation auction under the Southern Finland Forest Biodiversity Program, METSO (METSO, 2008). The conservation void in Finland is acute on privately owned land, and auction has been identified as one instrument with particular cost-effectiveness potential in a program that includes a mix of policy instruments. The close to a million Finnish non-industrial private forest-owners are in a key position to increase the conservation of forest biodiversity. This is because less than 2% of forests are protected in the area where private ownership dominates (Finnish, 2013) and forestry is the most important threat to endangered species and habitats (Tonteri et al., 2008). The auction, labelled “Natural Values Trading” (METSO, 2008), has not been applied in practice, although other instruments in the program have been applied, at least in some form (Koskela et al., 2010; Laita et al., 2012; Primmer et al., 2013). The program specifies that the tenders should be invited and compared on an annual basis but this competitive procedure has not been operationalized formally.

To illustrate the institutional constraints on developing and implementing an auction, I analyse the auction instrument in Finland that was assigned to be implemented by the environmental and forestry authorities. Through empirical analysis of documents and interview data, I investigate the institutional constraints that have led to the abandoning of the instrument. In particular, I analyse the institutional constraints that a competitive mechanism faces when implemented by public administration organizations generally geared toward implementing law and treating citizens equally (Primmer et al., 2013), with pre-established mandates, competencies and practices. The analysis pays attention to cost-effectiveness arguments in operationalizing the auction. In the following, I introduce the theoretical connection of institutions and auctions. In Section 3, I detail the empirical approach and report the findings in Section 4. In Section 5, I discuss the findings against the theory, and conclude by drawing the key message in Section 6.

## 2. Conservation auctions and institutional theory

The design and operationalization of conservation auction or any tender mechanism should address the institutional environment where the instrument will be applied. Institutions are carried by governing organizations but the same organizations invent and negotiate institutions (Scott, 2001, 181–204). Institutional theory addresses the match and mismatch between different regimes and policies, the organizational and professional competencies and the administrative practice, which condition new policy, and can generate friction. These approaches, detailed below, are applied here in the analysis of auctions.

First, the new auction mechanism needs to match the existing formal rules and regimes. The laws and formal policies define the

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