Economic Development Tools in Aboriginal Communities

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Presentation will explore:

• Importance of Traditional Values and Beliefs.
• Corporate Governance.
• First Nation Corporate Governance.
• Examples of First Nation Businesses.
• Success Story.
• Mondragon, Spain.
Importance of Traditional Values and Beliefs

Success Dependant on Managing Political Factors

- Sustainable economic development not as dependant on:
  - Strong Location
  - Many Resources
  - High Education

- More dependant on:
  - Self-rule
  - Capable Institutions of self-governance
  - Cultural match
  - Strategic orientation

Source: Cornell et al. 2005

Acknowledgments: Harvard and Arizona
Previous Research

1. Location
2. Resources
3. Education

**Example:**

Crow (Montana) = • Strong Location
• Many Resources
• High Education

*However, poor or low level of economic development.*

Potawatomi (Oklahoma) = • Poor Location
• Low Resources
• Low Education

*However, excellent or high level of economic development.*

Source: Cornell et al. 2005
Standard Approach to Reservation Economic Development

- Short-term, non-strategic.
- Lets someone else set development agenda.
- Treats economic development as economic problem.
- Views indigenous culture as obstacle to development.
- Reduces elected leadership to distributor of resources.

Source: Cornell et al. 2005
Six-Step Development Process under Standard Approach

- Tribal council/president tells tribal planner to identify business ideas & funding sources.
- Planner applies for federal grants/other funds & responds to outside initiatives.
- Tribe starts whatever it can find funding for.
- Tribal politicians appoint their political supporters to run development projects.
- Tribal council micromanages enterprises & programs.
- Everybody prays (sometimes it works).

Source: Cornell et al. 2005
Typical Results of Standard Approach to Development

• Failed enterprises.
• Politics of spoils – wrings out all resources before business fails.
• Economy highly dependent on federal dollars & decision-making.
• Brain drain – particularly the youth.
• Impression of incompetence & chaos that undermines defense of tribal sovereignty.
• Continued poverty.

Source: Cornell et al. 2005
### Importance of Traditional Values and Beliefs

<table>
<thead>
<tr>
<th>Examples of factors Affecting Enterprise Outcomes</th>
<th>Degree of First Nation Control</th>
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<tbody>
<tr>
<td></td>
<td>Low</td>
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<tr>
<td>External economic conditions</td>
<td>X</td>
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<tr>
<td>Market behavior</td>
<td>X</td>
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<tr>
<td>External regulatory environment</td>
<td>X</td>
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<td>Federal/provincial policy</td>
<td>X</td>
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<tr>
<td>Clarity about enterprise objectives</td>
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<tr>
<td>The politics-business connection</td>
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<td>Composition, purpose and power of corporate boards</td>
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<td>Independent resolution of disputes</td>
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<td>Community Education</td>
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<td>Good business practices</td>
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Source: Cornell et al. 2005
Nation-Building Approach to First Nation Economic Development

• Practical sovereignty
• Effective governing institutions
• Cultural match
• Strategic orientation
• Nation-building leadership

Source: Cornell et al. 2005
Nation-Building Approach

• Practical sovereignty
  – Self-rule, practical decision-making in the hands of First Nations communities.
  – Marries decisions & their consequences – leading to better decision-making.

• Effective governing institutions
  – Keep politics in place – visioning, community development.
  – Separate politics from day-to-day business & program management.
  – “Rules of the economic game” certainty to investors & community entrepreneurs.
Nation-Building Approach

• Cultural match
  – Degree of match between formal governance institutions &
    traditional & contemporary community values & beliefs.

• Strategic orientation
  – Move away from firefighting, band-aids, factional conflict.
  – Move towards sustainable solutions – “What kind of
    community/cultural are we trying to build for the long
    term?”

• Nation-building leadership
  – Move away from distribution of resources.
  – Move towards developing institutional & strategic
    foundations for sustained development & enhanced
    community development.
Corporate and Community Governance

Governance (definition) concerns:
• distribution of power,
• responsibilities,
• accountability, &
• organization’s performance/goals.
Models

• Shareholder model
  – shareholder value (North-American approach)

• Stakeholder model
  – all stakeholders (European approach)
Shareholder Model
- Profitability
- Shareholder wealth

Stakeholder Model
- Interest stakeholders
- Community goals
Shareholder Model

• Ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer & Vishny).

• Characteristics:
  – Maximizing shareholder wealth,
  – Profitability, &
  – Self-interest of participants.
Stakeholder Model

• System by which business corporations directed & controlled.
• Corporate governance structure specifies distribution of rights/responsibilities:
  – Board
  – Managers
  – Shareholders
  – Other stakeholders (community, environment, customers, etc.)
• Spells out rules/procedures for making decisions on corporate affairs. (Cadbury, OECD)
Corporate Governance Institutions

- General Assembly/Annual Meeting shareholders
- Board
- Management
- Other Stakeholders
Stakeholder View on Community Business Entities

Community goals:
• Improved quality of life
• Employment
• Education
• Health
• Environment

Stakeholders
• Band members
Boards

Executive & Non-executives:
- All-executive board members, or
- Majority executive board members, or
- Majority non-executive board members.

Unitary vs. two-tier board
Boards

• Independency
• CEO/Chairman separation
• Knowledge
• Board Committees:
  - Audit Committee,
  - Compensation Committee, &/or
  - Nomination Committee.
Board Responsibilities

- Supervising executive activities.
- Policy making (risk management, codes of conduct, etc).
- Accountability (approving and monitoring financial and other reporting).
- Strategy formulation.
- Appointing/removing officers.
Voluntary & community organizations

- Community objectives.
- Legal status (trusts, cooperatives, development corporation).
- Performance measured by achievement of multiple goals.
- Governing body (council, board of trustees, management committee) often large & drawn entirely from outside, non-executive members.
- Nomination to governing body may come from members, funding bodies, local community, etc.
- Membership of governing body usually voluntary & unpaid.
Voluntary & community organizations

Governance problems (Ticker, 2009):
• Stagnant membership (founder, etc).
• Board members elected by representative groups who have conflicts of interest.
• Lack of skills, leadership of board members.
• Failure to install new board members.
• Lack of strategic focus.
• Interpersonal politics.
• Inadequate control systems, performance measures & monitoring of executive actions.
• Boards packed with representative members -- well meaning but contribute little.
Good Governance

Highest Priority!
Governance Models

Three models identified:
1. Indian and Northern Affairs Canada (INAC)
2. Economic Development Corporation
3. Modern
**INAC Model**

- Board of Directors (BoD) of each business made up solely of Chief & Council.
- Elected officials had access to daily operations of band-owned businesses.
- Band members depended on reliability of leaders without checks & balances.
Economic Development Corporation Model

- Set up by bands.
- Purpose:
  - serve needs/goals of local band members.
  - provide financial support for community.
  - provide degree of separation between band council & business entities.
- Characteristics
  - band members not involved in appointment of BoD.
  - when council changes, fewer BoD changes, ensuring business continuity.
Modern Model

- BoD staggered in order to maintain continuity.
- allows distance & independence from band politics.
- band members involved in appointment of BoD.
  - balanced relationship with band businesses.
  - Chief/Council have less influence on nominations and appointment to BOD.
- BoD, & Financial Advisory Board responsible for monitoring activities of Development Corporation.
Success Story

Economic Development Corporation Model
Community Background

• Population 450 - 350 on-reserve, 100 off-reserve.
• Village at full employment - only approx 30 people unemployed due to various medical or social reasons.
• Over 500 people draw employment from band businesses, over 1,000 people gain employment on activities that take place on band lands.
• Band & its businesses are biggest economic engine in region.
• Band-owned businesses generate over $20 million revenue per year.
Community/Private Businesses

- Band businesses include:
  - construction business,
  - redi-mix concrete,
  - recreational vehicle (RV) park,
  - winery,
  - resort (joint venture),
  - land lease activity (over 1,000 acres of land).

- Community espouses capitalist philosophy in investment strategies.
  - Original economic development goal focused on employment generation,
  - New goal - create economic wealth for band through creation of community businesses.

- Over last five years generated $100 million in capital projects.
- Over next five years band plans to generate additional $100 million.
Organizational Structures

- Development corporation separate from band council.
- Board of Directors:
  - current council members,
  - past council members,
  - ex-bankers &
  - retired/current business people.
- Board of Directors appointed by Council for two year term.
- Council members - little business knowledge - depend heavily on advice of advisors to Board of Directors.
- Committees set up with membership from band Council to:
  - create bridge between political & economic development functions of community leadership, &
  - offer educational development opportunities to Chief & Council.
Successes

- Successes come from hard work, perseverance & good sense of entrepreneurialism.
- Masters of accessing government funding but only when meeting strategic development plan of community.
- Chief - master of long range strategic planning.
  - Chief does not micro-manage decisions,
  - aggressive in promoting business opportunity ideas,
  - highly effective in marketing products/services of band businesses.
- Band spends $190,000 per year on human resource development to insure managers have business skills.
- Use reserve land in proactive manner. Band-owned freehold land has created cash - also allowed them to borrow money for business development.
Weaknesses

- Noted, INAC weakest link in attempting to create a quality of life in community.
- Their success & booming regional economy has created severe skill shortage.
- All band business development knowledge is contained within two individuals. Need for succession planning.
- With complex coordination function between company managers & overall management of development corporation - strong educational function in human resources in an attempt to resolve management problems.
Lessons Learned

- Experienced leadership plays a significant role in developing a strong vision for the community.
- Band has to become even more proactive in strategic planning.
- A five-year strategic plan should be put in place, but it has been very hard to get it approved. One difficulty is being “nipped” at all time by nay-sayers.
- Finally, human resource development may be the greatest lesson learned.
  - Must develop band members who have proven experience, particularly business experience, & good financial skills.
  - Can only be achieved by formulating professional development strategies to improve education & effectiveness of staff.
Modern Model: Mondragon Corporation

- Congress responsible for policy making.
- Members elected from individual cooperatives.
- Membership is:
  - MCC president
  - Vice-presidents
  - Corporate Centre department heads.
Modern Model: Mondragon Company

- Differs from traditional cooperatives
  - layers of interdependency between cooperatives.
- Results in implementation of significant community projects
- Main purpose of Social Council
  - facilitate communication between management & workers.
- Individual cooperatives contribute to financial & social institutions.
Comparison of BC First Nations & Mondragon Model – Governance Structures

• In Mondragon, political element of community is separated from business element of cooperative movement.

• First Nations have linked political institutions to business development efforts.
  - slowly changing with introduction of economic development corporations

Source: http://www.mcc.es/ing/estructura/estructura.html
### Comparison of BC First Nations & Mondragon Model – Business Ownership

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<thead>
<tr>
<th>Mondragon, Spain</th>
<th>Business Ownership</th>
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<tr>
<td><strong>Workers in Mondragon:</strong></td>
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<tr>
<td>– own portion of own businesses.</td>
<td></td>
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<tr>
<td>– involved in business decision-making.</td>
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<tr>
<td>– receive portion of profits generated from their labour.</td>
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<tr>
<td><strong>In First Nations development corporation model:</strong></td>
<td></td>
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<tr>
<td>– ownership is vested in community.</td>
<td></td>
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<tr>
<td>– workers receive only a wage for labour.</td>
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<tr>
<td>– workers don’t have direct decision-making influence.</td>
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<tr>
<td>– workers don’t directly share in profits from labour.</td>
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<tr>
<td><strong>Mondragon model - three significant attributes:</strong></td>
<td></td>
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<tr>
<td>– Direct business ownership.</td>
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<td>– Leadership development.</td>
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<td>– Shareholder and stakeholder benefits.</td>
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Comparison of BC First Nations & Mondragon Model – Ancillary Business Support Services

- Mondragon demonstrates power of effective business support services.
- Caja Laboral Popular plays key role in new venture creation & business expansion.
- Technical, management, & leadership skills available through technical centers & university.
- Government-First Nation association perpetuates decision-making outside of First Nation communities & associations.
Conclusions

• Government of B.C. recognizes need to improve investment climate & provide economic opportunities for First Nations.

• Corporate governance structures have undergone significant progress over past several decades.
  – More checks & balances are now incorporated into governance structures.
  – Development corporations more separated from band political activities.

Source: www.aboriginalbc.com/trellis/ourart
Recommendations

• Community goals = business goals.
• Implementation of daily business operations independent of community politics.
• More independency for Board of Directors.
  – BoD should become more independent of Chief/Council to monitor activities of development corporations.
  – Separate committee for nominating Board of Directors.
  – Separate Audit Committee.
• BC association of development corporations for provision of ancillary business services.
Next Step in Research Process - Survey

Please complete the survey, which should take about 10 minutes, and hand back to Han or John.
INAC Model

Band Members
- Chief Council
  - Company
  - Company
  - Company

Modern Model

Band Members
- Chief & Council
  - Company
  - Company
  - Company

Chief & Council

Board of Directors
- monitor
- elect

Development Corporation
- manage

Financial Advisory Board
- report

Company
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