

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

Importance
of
Traditional
Values and
Beliefs

Previous Research

1. Location
2. Resources
3. Education

Example:

Crow =

- Strong Location
- Many Resources
- High Education

(Montana)

However, poor or low level of economic development.

Potawatomi =

- Poor Location
- Low Resources
- Low Education

(Oklahoma)

However, excellent or high level of economic development.

Importance
of
Traditional
Values and
Beliefs

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

Importance
of
Traditional
Values and
Beliefs

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

Importance
of
Traditional
Values and
Beliefs

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

First Nations' Control over Enterprise Outcomes

Importance
of
Traditional
Values and
Beliefs

Examples of factors Affecting Enterprise Outcomes	Degree of First Nation Control		
	<i>Low</i>	<i>Med</i>	<i>High</i>
External economic conditions	X		
Market behavior	X		
External regulatory environment	X		
Federal/provincial policy	X		
Clarity about enterprise objectives			X
The politics-business connection			X
Composition, purpose and power of corporate boards			X
Independent resolution of disputes		X	
Community Education			X
Good business practices			X

Source:
Cornell et
al. 2005

Importance
of
Traditional
Values and
Beliefs

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)

**First Nations
Corporate
Governance**

**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

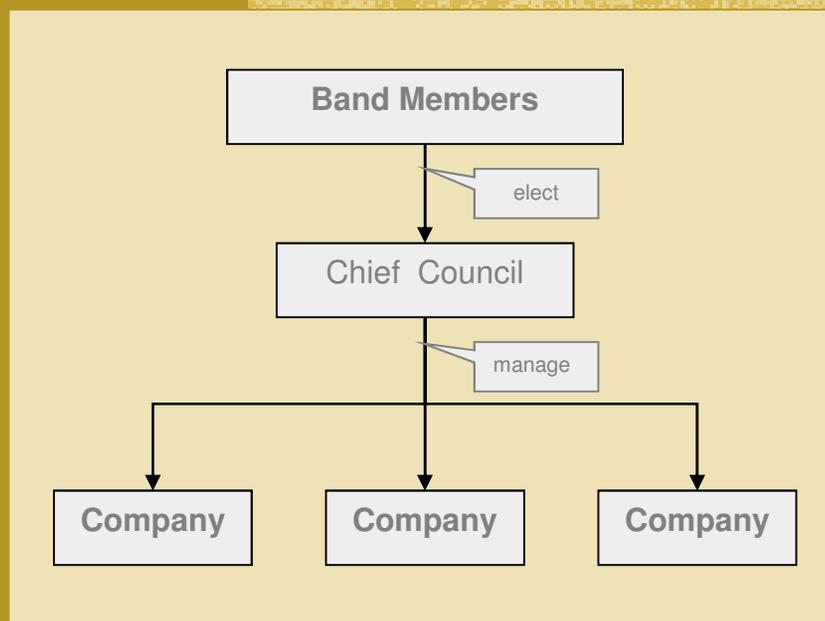
Three models identified:

1. Indian and Northern Affairs Canada (INAC)
2. Economic Development Corporation
3. Modern

**First Nations
Corporate
Governance**

INAC Model

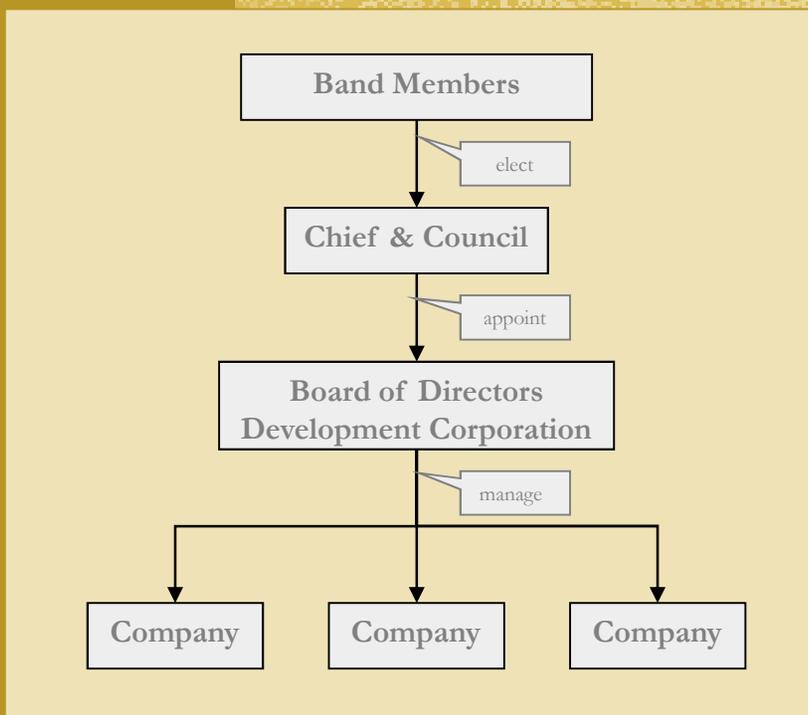
- Board of Directors (BoD) of each business made up solely of Chief & Council.
- Elected officials had access to daily operations of band-owned businesses.
- Band members depended on reliability of leaders without checks & balances.



First Nations
Corporate
Governance

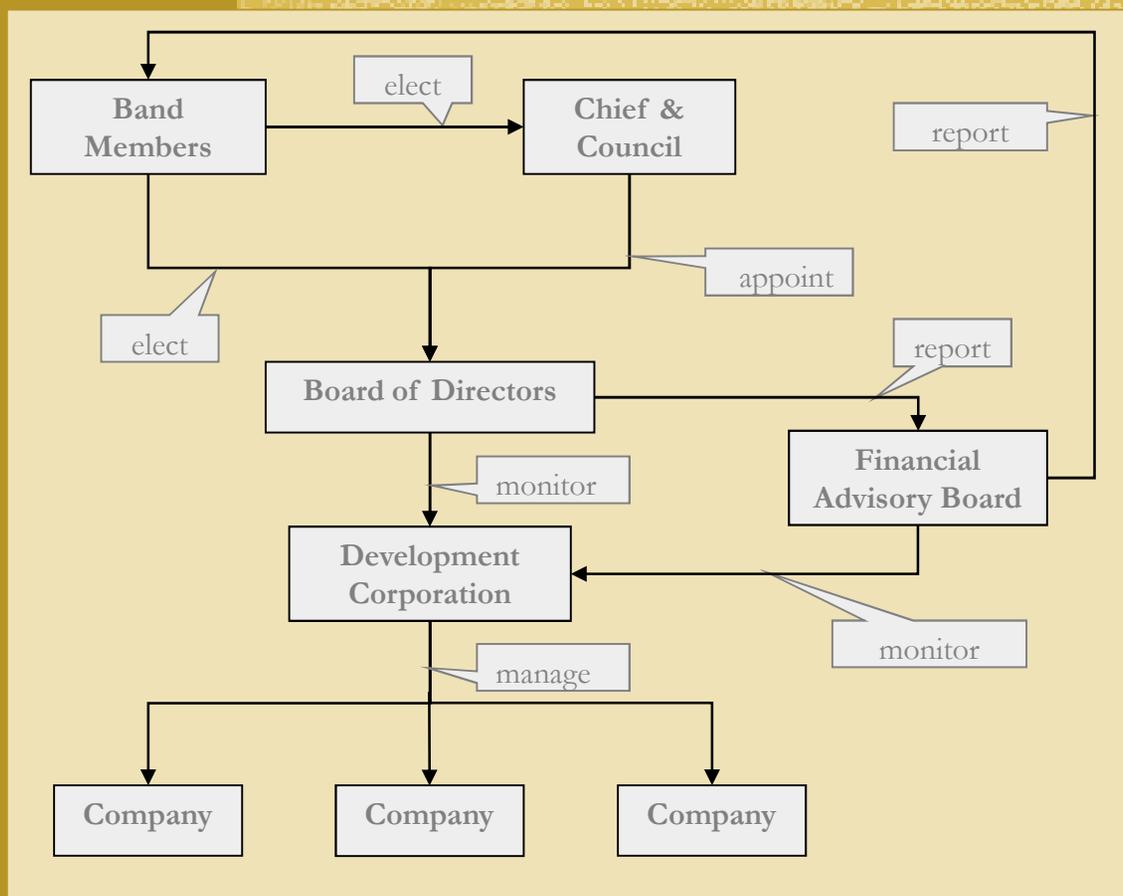
Economic Development Corporation Model

- 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.



**First Nations
Corporate
Governance**

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

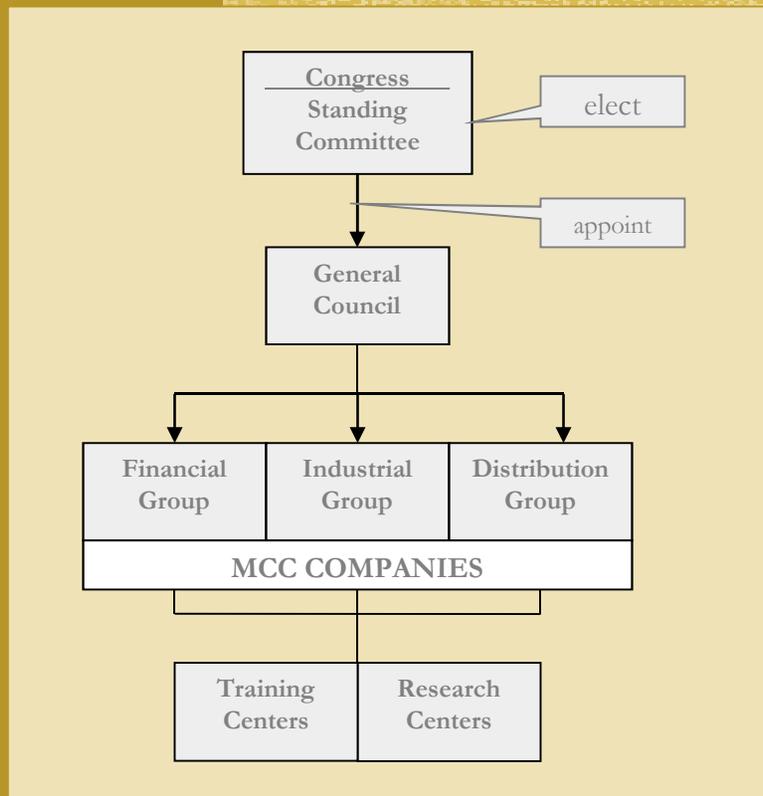
- Noted, INAC weakest link in attempting to create a quality of life in community.
- Their success & booming regional economy has created severe skill shortage.
- All band business development knowledge is contained within two individuals. Need for succession planning.
- With complex coordination function 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 strong vision for community.
- Band has to become even more proactive in strategic planning process.
- 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 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.

Mondragon,
Spain

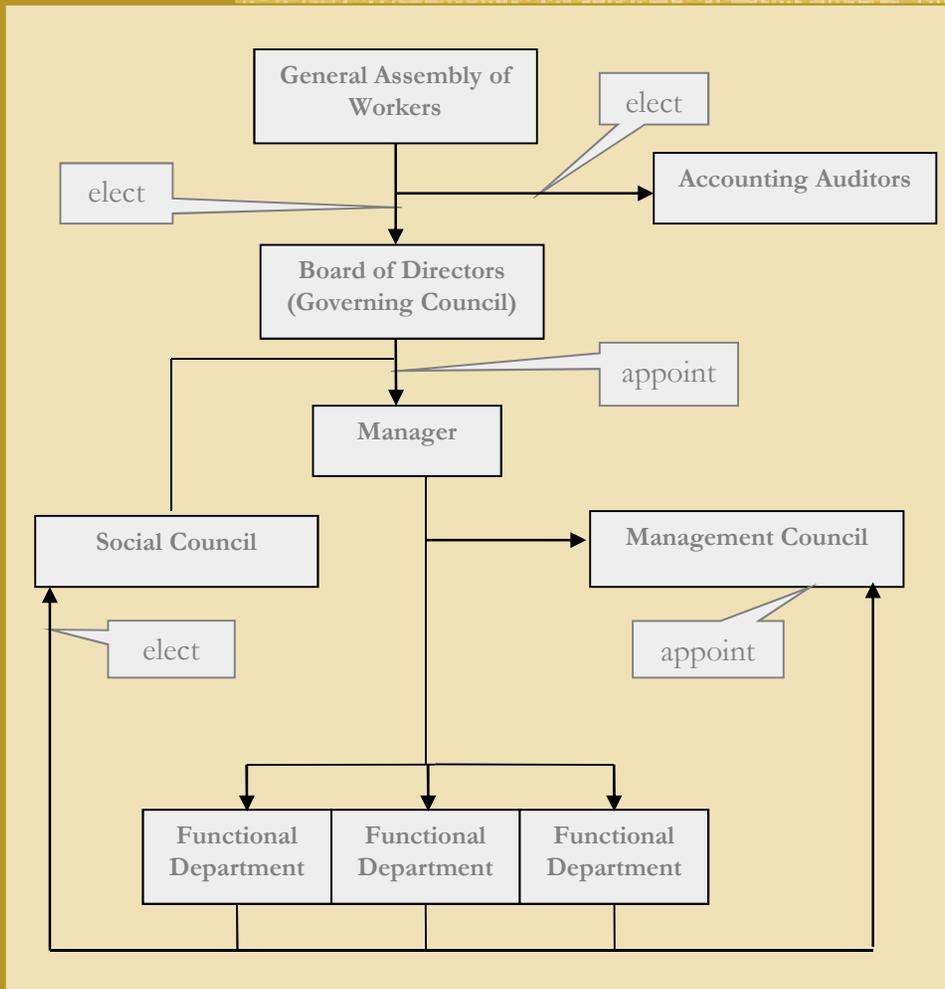
Modern Model: Mondragon Corporation



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

Mondragon,
Spain

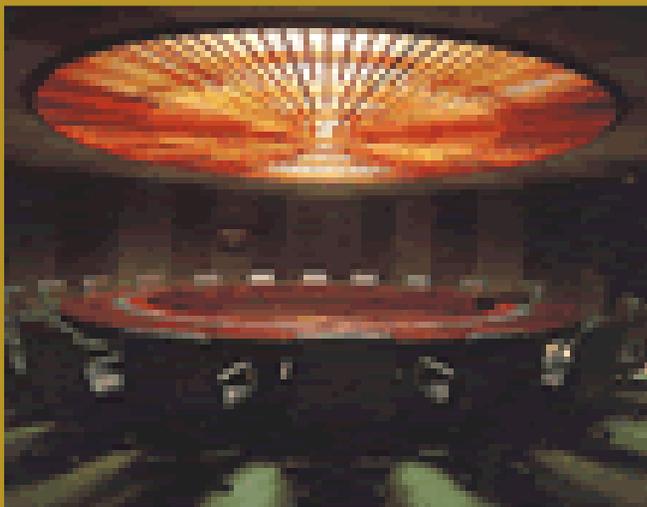
Modern Model: Mondragon Company



- 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.

Mondragon,
Spain

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

Mondragon,
Spain

Comparison of BC First Nations & Mondragon Model – Business Ownership

- Workers in Mondragon:
 - own portion of own businesses.
 - involved in business decision-making.
 - receive portion of profits generated from their labour.
- In First Nations development corporation model:
 - ownership is vested in community.
 - workers receive only a wage for labour.
 - workers don't have direct decision-making influence.
 - workers don't directly share in profits from labour.
- Mondragon model - three significant attributes:
 - Direct business ownership.
 - Leadership development.
 - Shareholder and stakeholder benefits.

Mondragon,
Spain

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.

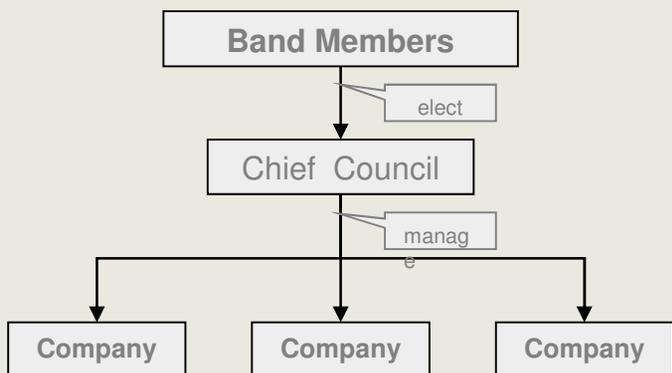
Recommendations

- 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.

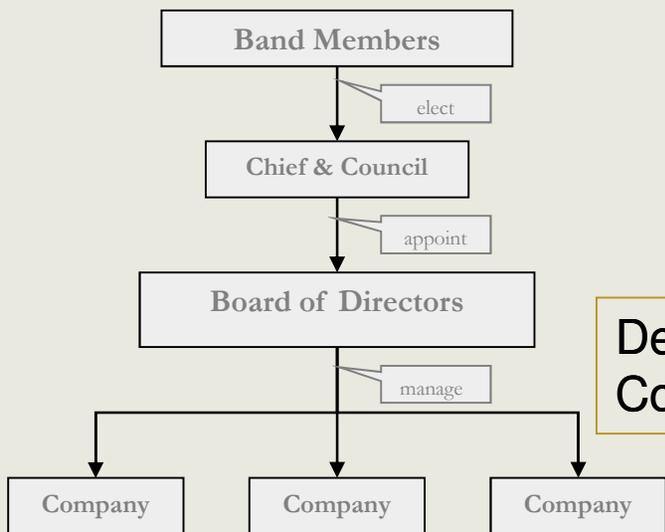
Next Step in Research Process - Survey



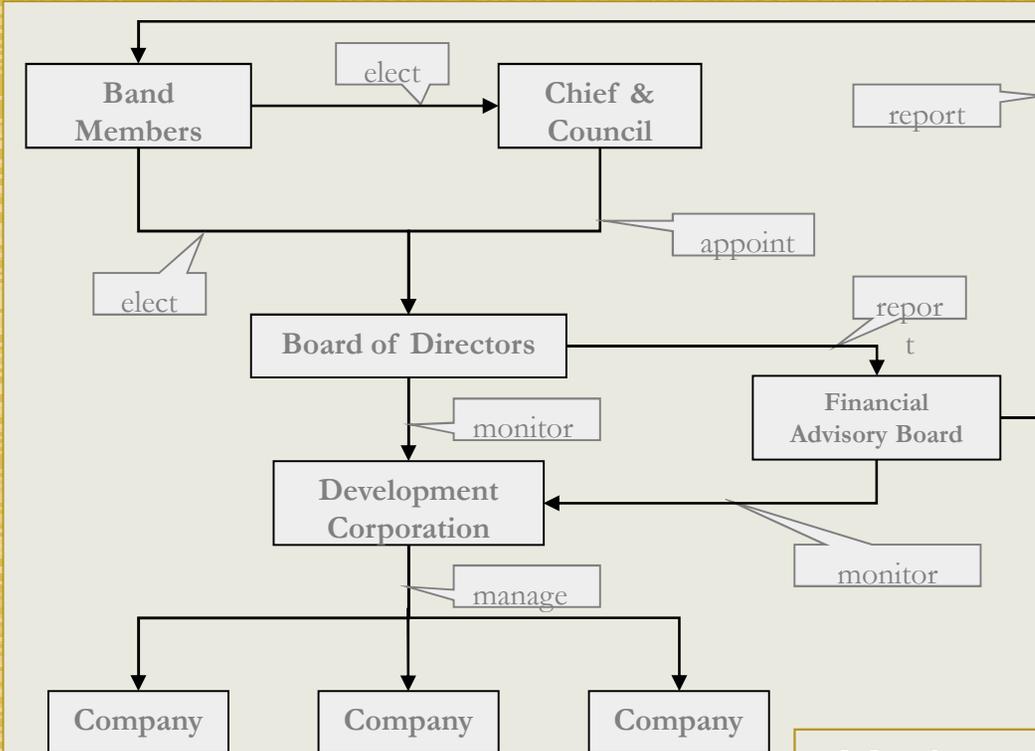
Please complete the survey, which should take about 10 minutes, and hand back to Han or John.



INAC Model



Development Corp



Modern Model

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