

Tribal Economic Development “A Total Approach”

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Using a tribe’s governmental and legal status to create successful economic development.

Ho-Chunk, Inc. is a successful tribal economic development corporation. It is wholly owned by the Winnebago Tribe of Nebraska. The company has won several national awards for excellence in tribal economic development. Due to these awards, over 30 tribes have visited Winnebago. Because of these visits and the system of internal innovation at Ho-Chunk, Inc. a blue print of what a Tribe needs to develop, implement, and consider was developed.

The focus of most economic development is related to specific projects or development initiatives. We believe that without creating a tribal economic development environment that has the following elements, that your tribe’s likelihood of long-term success is limited.

Four elements of tribal economic success:

1. Government Continuity
2. Separation of Business and Politics
3. Proper Strategy
4. Intra-Tribal Coordination of Resources—“The Total Approach”

1. Government Continuity

It is absolutely imperative that the tribal government has some kind of continuity. It is possible to achieve continuity by having a stable political environment that elects the same council or tribal leader over and over again. However, we believe that it is best if the continuity is part of the political infrastructure. In the interest of simplicity, we make a single recommendation to ensure government continuity: Create a system of staggered terms for electing tribal leaders. The following is a brief comparison between the impact of staggered terms and non-staggered terms electoral environments.

Staggered Terms and It’s Political Impacts

Allows long term planning because it reduces the possibility of a complete turnover of political, administrative, and business leaders within the tribe.

This lack of turnover greatly increases the likelihood of the tribe developing an excellent institutional knowledge base within its organizations. To a large extent

using tribal sovereignty effectively is a learned behavior and typically evolves incrementally. Such incremental developments are possible within a long-term stable political environment.

Increased likelihood of having a positive political environment. In a staggered term environment the people running for election must “get on board” with the current administration and typically suggest modest changes or innovations or they will risk alienating a large group of potential voters—the current administration and their supporters.

Reduces the likelihood of radical short-term decision making both before and after elections.

Non-Staggered Terms and its Political Impacts

Creates a negative political environment. Elections are all or nothing events. Political opponents attack the previous administration in order to get elected. Nobody gets elected by “getting on board” with his or her political rival.

Hurts ability of implementing a consistent long-term plan.

Increased likelihood of a high degree of political, administrative, and business leader turnover. Political leaders who are elected in a negative campaign against a previous administration seldom continue with the previous leaders initiatives and often replace other key administrative and business officials. This leads to a cycle of “perpetually starting over” in political, administrative and business strategy.

Increases likelihood of politically motivated decision-making directly before and after elections. Elections become destabilizing events.

2. Separation of Business and Politics

Tribal governments like all governments are terrible at running business. (See Russia, Cuba, Eastern Europe) Political motivations crept into all aspects of the decision making process, and thereby, hurting the long-term prospects of the business operations. However, because most tribes lack sufficient tax revenues to fund their government they are forced to enter into business to generate governmental revenues.

Ho-Chunk, Inc. is a hybrid solution. It is a corporation, which is wholly owned by the Winnebago Tribe with all of its legal and economic advantages, but functions under a defined set of checks and balances that limits the politician’s ability to impact business decisions.

The Tribal Council has a clearly defined role. They appoint the board of directors, they approve of the initial long-term plan, and they approve annual operating and investment plans for the company.

The board of directors hires the CEO, conducts a financial audit, develops the annual report and annual plan, they are also responsible for policy development and making sure that each investment fits within the parameters of the original long-term plan the latest annual plan. The board has five members. Two of the board members are required to be tribal council members. The two tribal council members ensure that tribal government interests are maintained and keep an informal line of communication open. One of the other board member positions is to be held by a tribal community member. The last two positions need not be tribal members, but should add some level of expertise to the board.

The CEO handles all day-to-day operations, implements the operating and investment plans and handles all personnel decisions.

System of Principles Governing the interaction between the Tribe and Ho-Chunk, Inc.

Often tribes have formed economic development entities that define the roles and responsibilities of each party in the articles of incorporation or bylaws. We felt that tribes often ignore those separations as soon as it is politically convenient to do so. Therefore, in Ho-Chunk, Inc.'s long-term plan it specifically defines the roles and responsibilities of each party and adds another section defining in general terms a system of principles governing the interaction between the tribe and Ho-Chunk, Inc. In brief those principles are as follows:

- *Pool of Investment Capital.* Ho-Chunk, Inc. needed a funding source that bypassed the normal tribal budgeting system or that didn't require specific tribal council action to make an investment decision. Without a quasi independent funding source, any investment decision would require tribal council action and therefore, make it subject to political motivations. The Winnebago Tribe allocated 20 percent of its gaming profits to an investment fund controlled by the Board.
- *Reinvestment of Profits.* In order to stimulate the growth of the entity, it was agreed that for the first 5 years that Ho-Chunk, Inc. would reinvest all profits back into growing the company. After five years, a dividend policy was established that declared an automatic dividend each year of 10 percent of the profits. This is important because it allows the entity to continue to grow.
- *Personnel Decisions.* All personnel decisions are made by Ho-Chunk, Inc. and are subject to the personnel procedures of the company and not the tribe. This is very important in a political environment because interference in personnel matters is one of the most common forms of tribal politics interfering in the business decision making process

- *Accounting System.* Ho-Chunk, Inc. established its own accounting system and procedures. It is important to be independent from the tribes accounting system so that you can establish a business friendly system that can provide access to information immediately.
- *No Government Functions.* Ho-Chunk, Inc. is specifically barred from engaging in traditional governmental functions. Often in tribes the corporate entities began taking on governmental functions, which dilutes their original purpose and invites governmental interference.
- *Legal and Economic Advantages.* Ho-Chunk, Inc. is supposed to explore all of the ways to utilize the tribe's significant economic advantages and unique legal status to maximize its economic impact. This section is vague, but potentially the most important because true competitive advantages can be developed by exploring this area.

3. Proper Strategy

All tribes are different, but due to similar political and economic structures and their unique legal status there is a range of types of economic development that most tribes engage in to develop their economies. (Note: This is not designed to be all-inclusive, we are striving to develop a common framework for discussing this issue, not reveling in our obscure differences.)

Common Types of Tribal Economic Development

- a. Grant-based economic development is quite common and relying on funding sources from federal and state government programs to develop economic enterprises or simply provided much needed development and administrative capital to create employment on the reservation.
- b. Non-profit based economic development is closely tied to the grant-based development, but its status opens up additional funding sources for tribally based economic development and administrative opportunities.
- c. Entrepreneur based development typically centers on small business development by individuals on the reservation. The grant and non-profit based developments are often tied into helping develop individual entrepreneurs.
- d. Tribal Corporate Economic Development is very important because often the tribe is the only entity with any significant amount of development capital. The tribal corporation can take several forms and may not in fact be a corporation at all, simply a sub-entity of some kind. However, there are four types that encompass most situations.

- i. Single Purpose Entity. These entities typically are formed to run a particular type of business and have no ability or incentive to move beyond that single goal.
 - ii. General Purpose Entity. These entities are engaged in multiple types of business development and are much more likely to expand into additional business niches.
 - iii. Financial Entity. These entities are typically vehicles for investing in passive investment opportunities that don't require significant human capital resources to implement.
 - iv. Government Contracting. These entities usually are involved of leveraging their tribal government status to create financial and job opportunities for tribes by getting preference for various government contracts.
- e. Business Recruitment. Involves attracting outsiders to locate their business or invest in the reservation. Requires a stable government and typically some type of economic or legal advantage to a reservation-based location.

What type of economic development a tribe engages in should be determined by factoring all of its unique advantages and political and economic motivations. However, in order to simplify the decision making process we recommend that a tribe consider its population and the corresponding need for tribal employment versus its available financial resources.

For example, a small tribe with a large income stream from its gaming operation probably doesn't have a huge need for employment or subsidized economic development planning. Therefore, a strategy that de-emphasizes employment based development and instead focuses on investing tribal resources into financial oriented projects that maximize the tribe's investment return is probably a sound strategy. At the other end of a spectrum, a tribe with a large population, high unemployment, and a small amount of per capita financial resources should probably not invest tribal resources in purely financial investments because it would ignore the job development issue. A strategy focused on maximizing the grant and non-profit based resources along with an effective business recruitment strategy would certainly make more strategic sense.

4. Intra-Tribal Coordination of Resources—"The Total Approach"

The average tribe has most of the pieces in place to implement an effective economic development strategy. However, those pieces are poorly coordinated and largely dependent upon the stability of the tribal government. Most tribes have a wide flat organizational chart with all departments, business, and programs reporting to the tribal council. This system makes coordination between entities less likely and significantly less likely if the tribe has occasional dramatic changes in the make up of its political and administrative leaders. (i.e. non-staggered terms)

One of the reasons Ho-Chunk, Inc. was successful related to its ability to coordinate all of the activities of the tribal business interests. Ho-Chunk, Inc. is a holding company that owns all of the tribal businesses. It can effectively allocate capital and resources amongst its subsidiaries, implement a company wide strategy, and force intra-tribal cooperation between entities.

To a large degree tribal business serve a social function related to improving the lives of tribal members. Ho-Chunk, Inc. indirectly impacted the social environment on the Winnebago Reservation, but the change wasn't happening fast enough. The primary impediment to local socially oriented development was the high cost of developing the infrastructure. A profit-motivated company couldn't justify the capital investment. Our solution was to integrate one of the tribal functions into Ho-Chunk, Inc.'s overall strategy. We started our own planning department to seek federal and state funding sources to supplement the high cost of on reservation development.

After some initial success we also formed a non-profit corporation, to utilize funding entities that are typically not available to tribes and to expand our universe of funding sources. This non-profit is loosely affiliated with Ho-Chunk, Inc., but is an important part of our on-reservation development funding.

The Winnebago Tribe now has a single entity responsible for the coordination of all funding sources (grants, non-profits, corporate) and can implement a reservation wide economic development strategy that minimizes upfront capital investment, maximizes corporate resources, and has an immediate social impact.