

TRACK 2: BUSINESS DEVELOPMENT



BUSINESS DEVELOPMENT IN INDIAN COUNTRY

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Business Development in Indian Country¹

I. Introduction

The history of American Indian and Alaska Native business development, up until the last three decades, can be reduced to a general scenario: the overriding focus was on what the federal government could do to “help” Native nations, most of whom were in poverty. This approach tended toward grant-making for projects and programs designed by non-Natives and a development agenda that was almost wholly federal government-driven. Tribal nations were often caught up in what was essentially a transfer economy, where tribes were left to manage federal monies, if they were able to secure these grants at all. This “projects and grants” mentality, where tribal ventures were often dictated by the federal government’s funding priorities rather than their own talents and opportunities, failed to create or support business development in any meaningful way because it did not address the overriding characteristic of Indian Country: its vast heterogeneity. Additionally, this federal grant making approach sparked a grant seeking behavior in many tribes, and ultimately undermined many of the Native nations’ own plans since precious tribal resources had to be invested in applying for federal grants in the first place.²

A shift in federal policies toward tribal self-determination means that business development in Indian Country today is less dependent on federal government prerogatives.³ However, business development in Indian Country continues to rely upon numerous important factors ranging from a tribe’s access to (or lack of) markets, their development strategy and the institutions in place to support their strategy. This paper will provide an overview of the opportunities and challenges of business development in Indian Country today, with an emphasis on the ways that tribal governments (and individual tribal members) can---and do--- leverage their competitive advantages and core competencies both on and off the reservation

II. Business Development by Tribal Governments

Building a Native Economy

At the most basic level, an economy is the way a society is organized to meet the needs of its people. There are local, regional, national and international economies. Because Native economies are intimately linked with tribal governments and tribal cultures, business development in Indian Country in the United States often depends on the creation of new tribal government institutions, ranging from regulatory commissions to tribal economic development

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² Research by the Harvard Project on American Indian Economic Development and the Native Nations Institute has documented the ways that federal programs have both addressed and contributed to the underdevelopment of tribal economies. This body of work is available at www.ksg.harvard.edu/hpaied and www.nni.az.edu.

³ See, for example, “American Indians on Reservations: A Databook on Socioeconomic Change Between the 1990 and 2000 Censuses,” Jonathan Taylor & Joe Kalt, 2005. Available at www.ksg.harvard.edu.

corporations. The structure and effectiveness of these institutions depends upon a range of factors, including cultural appropriateness and political stability.⁴

One of the most common and effective strategies employed by tribal governments in the United States has been the creation of tribal development corporations to manage the business research and development arm of the tribal government, strengthen management and streamline business decision-making. For some tribes, creating a triangular approach works to most efficiently generate, protect and invest tribal capital and assets. Harvard research into nation building supports the general premise that separation of powers can increase accountability and support more efficient governmental functions. However, it is critical that these institutions are also culturally appropriate and tribally generated so they best reflect the goals of the tribe.⁵

Examining the Tribal Economy: The Bull's Eye Exercise

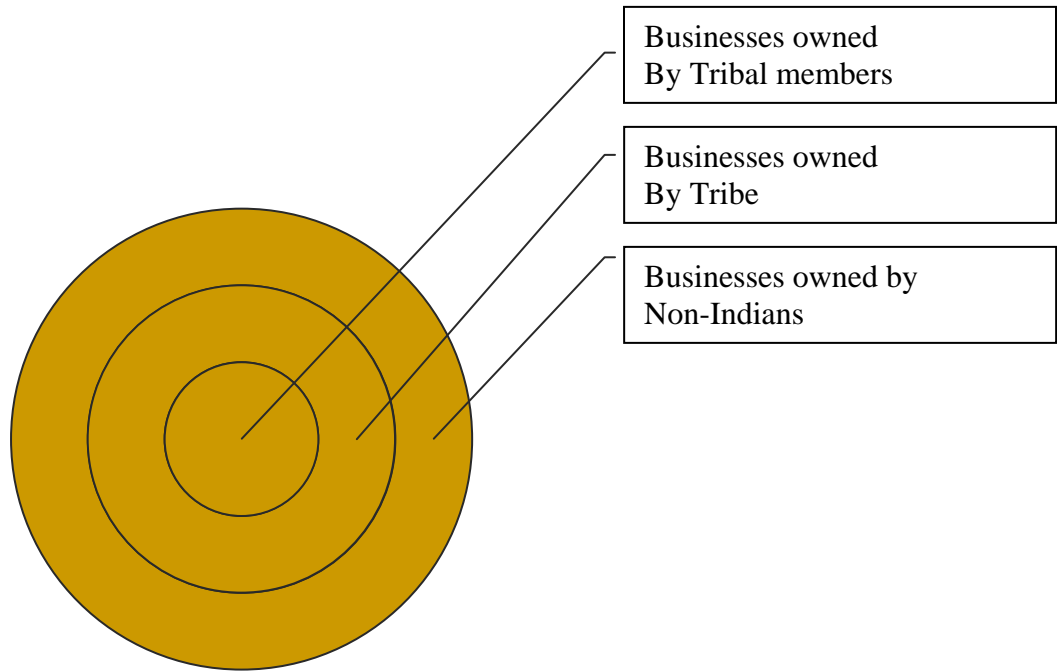
The First Nations Development Institute has developed a simple tool for measuring the degree to which an individual native community is self reliant and for assessing the health of its economy. Because an economy is comprised of businesses that meet the needs of its citizens, it is useful to examine the profiles of business owners in the community in order to examine gaps in local businesses and evaluate money leaks to outside corporations or national chains.⁶

The Bull's Eye Exercise consists of three concentric circles: the center circle is a list of businesses owned by community members; the next "ring" is a list of businesses that are tribally-owned; and, the outer ring is those businesses not owned by the tribe or anyone in the community. Businesses that serve the community can range from the local gas station, grocery store, card dealership or restaurant to services industries such as plumbing. The resulting diagram reveals how much a tribal community is spending in surrounding communities and how much money is leaking into non-tribally owned businesses. When a majority of the funds are spent in the outer ring it is evidence that the tribal community is not retaining or building wealth to the degree that it could be.

⁴ Most of this section draws upon the resource, *Building Native Communities: Financial Skills for Families*, created by the First Nations Development Institute and the Fannie Mae Foundation.

⁵ Ibid.

⁶ *Building Native Communities: Financial Skills for Families*. Created by the First Nations Development Institute and the Fannie Mae Foundation.



Evaluating the Money Flow

This exercise is useful in business development in a couple of important ways. First, it provides a platform for community discussion regarding the money flow. Second, it highlights areas where new or existing businesses can be developed. While each community may have different outcomes depending on various factors (rural v. urban, large v. small land base, etc.), the chart may suggest the following questions for community consideration:

- What existing tribal or tribal citizen-owned businesses can be expanded to capture a greater share of the money flow (vertical integration)?
- What business acquisitions would promote money flow capture?
- What new businesses would alter the money flow in a way to benefit the tribal community?⁷

Identifying Strengths and Assets

Another common tool for business development is an analysis of a potential industry or business's strengths, weaknesses, opportunities and threats (also known as a SWOT analysis.) Tribal governments or business development boards may want to apply SWOT analysis to any

⁷ "Economic Development Opportunities and Financing Options in Indian Country." Presentation by Elke Chenevey, Vice President, Merrill Lynch. Economic Development Summit hosted by the California Nations Indian Gaming Association and the Center for California Native Nations, UCR. Santa Barbara, CA. June 23, 2007.

number of proposed ventures to determine their viability. It may also be useful to do a SWOT analysis of the tribal assets generally, with an emphasis on strengths and opportunities. In addition to discussing the business aspects of development in the analysis, it may also be useful to consider tribal resources, tribal member interests, core competencies and competitive advantages.

A sample SWOT analysis is presented here:

<p>Strengths</p> <ul style="list-style-type: none"> Land Base Focus/Commitment of key stakeholders Strong community relations Location Road or Rail access Employment opportunities Educated workforce 	<p>Weaknesses</p> <ul style="list-style-type: none"> Outdated policies/ordinance Political approval process is slow Lack of staff Limited business experience Physical infrastructure is lacking Few relationships with financial institutions
<p>Opportunities</p> <ul style="list-style-type: none"> Local businesses want to sell Other tribes are interested in partnerships Convenience Store/Gas Station Infrastructure projects Water Supply Chain opportunities Recreation 	<p>Threats</p> <ul style="list-style-type: none"> Competition Change in tribal authority Economic outlook for the region Land prices skyrocketing Compact term Political considerations

Assessing and Nurturing the Competitive Environment

At the heart of business development for tribal governments is the question of how an individual tribe can accumulate wealth and develop both its assets and its economic opportunity set. This topic has been little-discussed in the literature on Native American economic development proper, which has focused more specifically on problems of government design (e.g. what is the best way to structure an economic entity whose assignment is to “make money” for all the citizens of a given tribe?). This discussion provides a brief overview of the challenges that confront any investment-oriented economic unit-- in this case, even the most optimally organized tribal government.

There are ideas literally “all over the map” about how economic clusters and competitive advantages are formed, why they succeed, and why they fail. Some authors emphasize the need to support entrepreneurship; other authors emphasize the need to get the structure of rules and incentives right. Some focus on workers, some on firms. Some view the international economy

as a threat; others see it as an area of opportunity. There is probably some truth in all of these characterizations – all are correct to some extent, or have been correct, for a particular set of governments, companies, and regions.

In addition to his significant contributions regarding industry analysis, economist Michael Porter of the Harvard Business School has developed an encouraging explanation regarding industry attraction that may be useful for tribal governments to consider. Porter claims that industries emerge in any given place because the governmental authorities in that place create appropriate incentives for business, and because businesses whose output and input markets permit them to succeed in that place make strategic decisions about where to locate.⁸ Porter criticizes the traditional economic model of “comparative advantage” as an explanation of how places can compete since it privileges natural advantages – land, labor, and other resources. Porter’s model, in contrast, proposes that national (or regional) advantages are *created*, not *pre-given*.

Porter presents as an alternative his “Diamond” framework, which argues that four interlinked factors generate competitive advantage for nations or regions:

1. Firm strategy, structure and rivalry (direct, dynamic competition among major firms makes the economic world go round, and drives productivity increases).
2. Demand conditions (the presence of a customer base willing and able – if the products are good – to provide a floor for local supplier firms).
3. Related supporting industries (the location within (or near) the region of upstream or downstream industries that can not only supply goods but exchange information and promotes the continuous exchange of ideas and innovations).
4. The presence of skilled labor, capital and infrastructure – that is, of those factors of production that require heavy, sustained investment and training. (Porter argues that these special factors are made and not pre-given. Unskilled labor and raw materials are viewed as plentiful universally so their presence in a given area conveys no competitive advantage for that area.)

Government in Porter's “Diamond” model is a “catalyst and challenger.” Government should encourage companies to raise their performance, stimulate early demand for advanced products, focus on specialized factor creation and stimulate local rivalry. Since the federal government plays such an important role in American Indian economic development, it seems critical that tribal governments and the federal government strategize together to create opportunities that leverage Indian Country’s unique competitive advantages. The federal government contracting programs such as 8(a), the Buy Indian Act and HUBZone programs are terrific examples of what Porter envisioned as a role for government (in this case both federal

⁸ Michael E. Porter. *The Competitive Advantage of Nations*, New York: Free Press, 1990.

and tribal) to provide both a method for participation and a role in the business development deal flow.

Porter's article on inner-city economic development is also useful for Indian Country because he considers why a particular region may be marginalized and lack significant industry.⁹ Porter argues that the majority of government programs aimed at encouraging renewed economic activity in the inner city have failed because they have "treated the inner city as an island isolated from the surrounding economy and subject to its own unique laws of laws of competition,"¹⁰ Isolating the inner city from the market forces remaking the "mainstream economy." Similar to Indian Country, Porter identifies numerous inner-city disadvantages: fragmented land; high building, operating, and security costs; antiquated (or lack of sufficient) infrastructures; weak workers' and managers' skills; and a shortage of capital. However, offsetting these liabilities are four competitive advantages: a sizable consumer market; location; proximity to industrial clusters; and underused human resources.

Rosabeth Kanter, Porter's Harvard Business School colleague, has developed some complementary ideas.¹¹ Kanter argues that nation-states are becoming irrelevant; instead, regions and "citi-states" must develop world-class levels of industrial knowledge, production capacity, or trading linkages. These are the three "C's": concepts, competence, and connections. Firms' survival, individuals' economic security, and region/citi-state prosperity all depend on possessing one or more of these C's. Size alone does not guarantee success; indeed, small and flexible firms may be more competitively fit than large ones.

While Porter's ideas were not generated based upon Indian Country's specific challenges, these concepts can inform business development discussions by encouraging tribal governments to consider ways to create incentives for business attraction, strategies for strengthening interdependence with regional trading partners and leveraging national or international linkages. These concepts can also inform discussions among tribal and federal policymakers who are charged with creating and evaluating federal tools and programs for stimulating business development in Indian Country.

Federal Programs to Support Business Development

The federal government has developed numerous programs to support business development among socially and economically disadvantaged groups, including many designed specifically for tribal governments and members. A 2001 GAO study found that there were over 100 federal tools and programs intended to support tribal government business development. These programs are largely created to supplement the existing tax advantages and regulatory incentives that already exist on tribal lands.¹²

⁹ Michael E. Porter. "The Competitive Advantage of the Inner City," *Harvard Business Review*, May/June 1995, pp. 55-72.

¹⁰ *Ibid.*, p. 54.

¹¹ Kanter, Rosabeth, *World Class: Thriving Locally in the Global Economy*. New York: Simon and Schuster, 1995.

¹² Government Accountability Office (GAO) report, "Economic Development: Federal Assistance Programs for American Indians and Alaska Natives." December, 2001. See also "Testimony of the National Congress of

In 2004, the Department of Health and Human Services (HHS) conducted an evaluation of the relative usefulness of the existing federal tools and programs for tribal business development. Not surprisingly, their report found that no single program was effective for all tribal governments. However, among the tribes and Native corporations interviewed in depth for the report, they found that the most important factor in tribal business development success has been, “legislation supporting tribal self-determination and self-governance has enabled the tribes...to take over responsibility for and control of business development activities.”¹³

The tribal governments interviewed for the HHS study participated in a range of businesses, including tourism, banking, information technology, retail sales, construction, manufacturing, and natural resource exploitation (mining, forest products, and farming.)¹⁴ They reported that the most helpful federal initiatives for business development included the Small Business Administration’s (SBA) 8(a) program, the USDA’s Rural Development Programs and HUBZone designations.

Small Business Administration’s (SBA) 8(a) Program

The federal government is a major buyer in the United States, purchasing over \$200 billion in goods and services annually.¹⁵ The SBA’s 8(a) program is one of the federal government’s primary means for developing small businesses owned by socially and economically disadvantaged individuals since it provides incentives for federal agencies to use these businesses as favored suppliers. There are additional advantages for tribal governments and Alaska Native corporations as well. According to the HHS report, “procurements with a value of \$1 million or more are competed among three or more 8(a) firms; however, this requirement is waived, by statute, for firms owned and operated by tribes or Alaska Native corporations.”¹⁶ According to the National Congress of American Indians (NCAI), the benefits of the 8(a) program for tribal business and economic development “cannot be overstated.”¹⁷

Two tribal examples provide insight into the ways that tribal governments have been able to develop a strong government contracting component as part of their overall business development portfolio. For example, Chickasaw Nation Industries (CNI) was created in 1996 as a federally chartered corporation. The Board of Directors---all of whom are Chickasaw--- is appointed by the Chickasaw Governor and confirmed by the tribe’s legislators. Currently, the CNI organization is made up of 12 different companies consisting of technology, administrative

American Indians before the Senate Committee on Indian Affairs Oversight Hearing on Economic Development,” May 10, 2006.

¹³ “Overcoming Challenges to Business and Economic Development in Indian Country.” Walter Hillbrant, et al. August, 2004, p. 18.

¹⁴ Ibid.

¹⁵ “Testimony of the National Congress of American Indians before the Senate Committee on Indian Affairs Oversight Hearing on Economic Development,” May 10, 2006.

¹⁶ “Overcoming Challenges to Business and Economic Development in Indian Country.” Walter Hillbrant, et al. August, 2004, p. 24.

¹⁷ “Testimony of the National Congress of American Indians before the Senate Committee on Indian Affairs Oversight Hearing on Economic Development,” May 10, 2006.

services, medical services, construction and manufacturing that collectively employ more than 2,000 people. Today, the CNI portfolio includes seven 8(a) and five non-8(a) companies doing business with a large number of government agencies and private sector firms, all working under the CNI umbrella. CNI has offices located around the country (and also in South Korea, Guam and Puerto Rico) with a corporate headquarters in Ada, Oklahoma.¹⁸

S&K Electronics, Inc. (SKE) is a manufacturing company owned by the Confederated Salish and Kootenai Tribes of the Flathead Indian Reservation in Montana. Established in 1985, SKE joined the SBA 8(a) program in 1990 as a way to transition from a job creation vehicle for the tribe to a revenue center of its own. After joining the 8(a) program, SKE created strategic partnerships with existing federal government suppliers and focused on being the prime contractor on government contracts through its relationships with more established and well financed partners.¹⁹ Since then, SKE has earned many important contracts in manufacturing and information technology and received numerous business awards. According to research on successful enterprises, SKE's success "can be attributed to four variables:" (1) its ability to use federal funding to its benefit; (2) its independent five-person board of directors; (3) its ability to deliver a quality product on time; and, (4) its ability to shift into different markets.²⁰

Natural Resource Development and Agriculture

Another area of business development discussed among the tribes interviewed for the HHS report includes agriculture and natural resource utilization and management.²¹ The tribes profiled in the report engage in a range of activities including extraction/harvesting and selling minerals, crude oil or forest/agricultural products. Some tribal activities have changed over time, such as the Colville tribe's forest products businesses. The Colville Tribe, located in Washington state, originally sold only raw lumber from its 700,000 acres of forests. Now, they also manufacture a variety of forest products through their Forest Products Division, one of four economic engines of Colville Tribal Enterprises. Ultimately, the Colville Tribe partnered with the Spokane Tribe and four Washington counties to form the Five Star Enterprise Community, which has received over \$27 million in federal and state funding to address multiple economic development and community objectives.²²

According to the same report, "farming and ranching are important businesses for each of the tribes in the study."²³ One example of vertical integration is the recent move by the Citizen Potawatomi to purchase a farm that will grow vegetables for sale in its supermarket.²⁴ There is evidence that the USDA rural development programs are among the most beneficial federal

¹⁸ See www.chickasaw.com. Information presented here was accessed on April 29, 2007.

¹⁹ For the complete profile of SKE, see *Building the Future: Stories of Successful Indian Enterprises*. National Congress of American Indians. 2001, pp.65-68. See also www.skecorp.com.

²⁰ Ibid. p. 67.

²¹ "Overcoming Challenges to Business and Economic Development in Indian Country." Walter Hillbrant, et al. August, 2004, p. 18.

²² Ibid., p. 23-24 See also www.colvilletribes.com.

²³ Ibid. p. 20.

²⁴ *American Indians and Alaska Natives: A Guide to USDA Programs*. US Department of Agriculture, February, 2007.

programs for tribal governments who qualify for Empowerment Zones and Enterprise Communities designations. In order to confirm their commitment to and provide meaningful support to tribal governments engaged in agricultural activities, the USDA has recently published a guide to its programs which serve tribal governments and Alaska Native corporations. According to the report, funds can be used to support tribal agricultural business development in many ways, including formation of a community-based farm cooperative, improvement of irrigation canals, construction of marketing centers and creation of joint ventures.²⁵

Tribal Energy Development

The 2005 Indian Tribal Energy Development and Self Determination Act reformed the way Indian lands are leased for energy purposes by replacing federal decision-making with tribal decision-making for energy purposes. The Act also encouraged tribes to plan, conduct, and manage their energy activities under a Tribal Energy Resource Agreement (TERA.) Until recently, one of the major stumbling blocks to tribal energy development plans was the inefficiency of the federal review and approval process for land leases and business agreements.

The new Indian energy law, included as Title V in the Energy Policy Act of 2005, has far-reaching implications for the management and development by Indian tribes of their renewable and non-renewable energy resources. The Act provides a comprehensive framework for technical, financial and legal assistance to Indian tribes and tribal consortia to undertake resource inventories, develop long-term resource management and development plans, enhance legal and regulatory capacity and strengthen environmental training and enforcement capabilities. Many tribal governments are already involved in energy development and there was a general excitement across Indian Country when the Tribal Energy Development Act was passed in 2005. However, a number of barriers to energy development remain, particularly with regard to renewable energy.

Tribal Government Gaming Stimulates Business Development

For the past 20 years as tribal governments have assessed their unique advantages and challenges, they have recognized major opportunities in the tourism and hospitality industry in general and the gaming industry in particular. For many tribes, pursuing economic development through tribal government gaming has been their most obvious expression of tribal self determination. Since the *Cabazon* decision in 1987 and the passage of the Indian Gaming Regulatory Act (IGRA) in 1988, over 200 tribal governments have opted to pursue gaming as an economic development strategy.

One observable way that tribal governments are creating and diversifying their business portfolios is through strategic investment of gaming revenues. The unparalleled success of tribal government gaming in some parts of the United States has created an opportunity for many tribal

²⁵ Ibid. See also “Overcoming Challenges to Business and Economic Development in Indian Country.” Walter Hillabrant, et al. August, 2004, p. 22.

governments to grow, manage and invest *tribal capital* rather than rely upon federal funding programs or other transfers. Additionally, the ability to leverage gaming revenues has created extensive access to capital markets for many tribal governments.²⁶

While each tribal government is able to mobilize a unique set of competitive advantages based upon such factors as location and land base, there are emerging patterns of business development made possible through this new-found access to tribal capital. For example, tribal governments are institutionalizing their businesses development efforts by creating business development boards or economic development agencies. They are also creating strategic partnerships that allow them to grow and access larger talent pools and expand their business resumes, both on and off reservation. Economic development planning and revenue diversification are two approaches that tribal governments can use to achieve long-term objectives, diversify risk and promote entrepreneurship among tribal members.

Current Business Development Trends

While it is difficult to generalize about business development in Indian Country, there is an identifiable pattern of business development among many tribes in the United States. For example, in order to exploit core competencies in hospitality and gaming, many tribal governments have begun business development in gaming-related ventures like hotels, restaurants, spas, RV parks, convention centers and gas stations. These amenities directly enhance the gaming experience while creating additional (and often significant) employment opportunities and revenue streams for the tribal government.

Another business development trend in Indian Country is tourism development more generally, with many tribal governments building and managing golf courses, museums, outlet malls, water parks, convention centers and other businesses that attract visitors to the reservation for gaming and non-gaming purposes.

Finally, tribal governments with a limited land base or a remote location are pursuing business development that does not rely on the local market or attracting tourists to the reservation. In many cases, these businesses include development of the tribe's natural resources for export to national or international markets. Examples of these businesses include water bottling plants, farms, orchards, ranches or energy development. Additionally, many tribal governments have purchased or created banks, developed restaurants or hotels and pursued franchising off the reservation, building on their hospitality experience and taking advantage of larger national and international markets.

Off Reservation Business Development

One particularly innovative off-reservation project, The Four Fires LLC, is an economic partnership of four tribal governments-- the Forest County Potawatomi Community of

²⁶ Not all tribal governments pursue gaming. In some states, however, there are mechanisms in place for tribes without gaming to receive gaming revenues through machine lease arrangements or revenue sharing funds.

Wisconsin, the Oneida Tribe of Indians of Wisconsin, the San Manuel Band of Mission Indians and the Viejas Band of the Kumeyaay, both of which are located in Southern California. These partners created a joint venture with the Donohoe Companies, a 118 year-old DC-based full-service real estate company to build and develop a 233-suite, \$43 million dollar Residence Inn hotel in Washington, D.C. The hotel is located just three blocks directly south of the National Mall site of the National Museum of the American Indian (NMAI). Both the museum and the hotel opened in 2004.

This project is a departure from other tribal business development models for two main reasons: first, it is a tribally-driven initiative built upon tribal capital; and second, it is the first time that four Indian nations have collaborated in a non-gaming, off-reservation business development project. The fact that the hotel is in Washington, D.C. near the new NMAI was a key attraction for the tribes involved. While the new museum is a testament to Indian Country's rich *cultural* capital and a place where visitors can learn about the inherent nature of tribal sovereignty, the hotel is a potent symbol of Indian Country's growing *economic* capital and a tangible example of the collaborative exercise of tribal sovereignty. Together, these Native spaces have changed the physical landscape of the nation's capitol. Even more importantly, they can change the political and economic landscape from one where tribal governments are often understood as a part of American history to one where they are undeniably a vibrant part of America's future.

Other tribal governments have pursued off-reservation business development as well. The Sycuan Band of Kumeyaay has purchased and restored the historic U.S. Grant Hotel in San Diego, California. The Mashantucket Pequot Tribal Nation won a gaming license and will leverage its expertise to openly compete in the Pennsylvania gambling market. The Seminole Tribe of Florida has received a great deal of attention for purchasing the Hard Rock Hotel chain. These recent developments provide evidence that tribal governments can effectively compete in a business context without the competitive advantages provided by on reservation status since off reservation business development is operated under the standard rules of the jurisdiction in which it is located.

International Opportunities

Traditionally, tribal governments in the United States created extensive networks of trade and strategic alliances. As the collective tribal land base was diminished and divided, these networks were also dismantled as tribal governments were alienated from their traditional products and markets. Recently, some tribes have begun to revitalize their economies and establish and renew trade relationships, both old and new. The Navajo Nation, for example, sent a trade delegation to Cuba to explore the possibility of entering into a food sales agreement. The San Manuel Band of Mission Indians in Southern California embarked upon a trade mission to China in 2006 in order to explore ways to exploit their newly-established free trade zone at the San Bernardino International Airport. One part of their larger agenda is to explore the possibility

of forming a tribal investment coalition of like-minded tribal governments, essentially “creating a 21st Century version of the Native American commerce that existed thousands of years ago.”²⁷

Other tribal governments have begun exploiting international opportunities on an individual basis. For example, the Mississippi Band of Choctaw Indians has developed three manufacturing plants in the state of Sonora, Mexico that serve two of its manufacturing enterprises, Chahta Enterprises and Choctaw Electronics Enterprises. The Choctaw’s business partnerships include joint-ventures, wholly-owned companies, and landlord/tenant relationships with Fortune-500 companies.²⁸ The Seminole Tribe of Florida has two significant investments in Nicaragua, including an 86-room, 4-star hotel in Managua and 6,000-acre ranch with 3,000 cattle outside of Managua.²⁹

In order to institutionalize the commitment to re-establishing and expanding traditional trade routes, there are on-going negotiations of a United League of Indigenous Nations Treaty between tribal governments in the Northwest United States and indigenous groups of the Pacific Rim. One important principle in the draft Treaty is that it recognizes that economic relationships “have existed since a time immemorial” and “our right to continue such relationships is inseparable from our inherent indigenous rights of nationhood.”³⁰

III. Business Development by Tribal Members

The Rise of Native Entrepreneurship

The majority of revenue-generating enterprises in Indian Country are still owned by tribal governments. However, recent research reveals that entrepreneurship development is beginning to play a significant role in promoting healthy tribal economies. Reports from the Community Development Financial Institutions (CDFI) Fund of the U.S. Department of Treasury cite the sales growth rates of Native American-owned business as double the U.S. average and business creation rates as seven times the U.S. average.³¹ Data from the 2000 U.S. Census shows that since 1997 the number of Native American-owned businesses has risen by 84% to 197,300 and that their gross incomes have increased by 179% to \$34.5 billion. The Native American Entrepreneurship Project Report, written by First Nations Development Institute (FNDI), estimates that 170,083 of these businesses are micro-enterprises---businesses that are owned and operated by one person or family, have fewer than five employees, and are usually financed with loans of less than \$35,000.³²

²⁷ *Tradition of Trade: San Manuel Economic Diversification Targets Asia*. Written by Dave Palermo, Edited by Jacob Coin. Published by Ascend Media. March, 2007.

²⁸ See <http://www.choctaw.org/economics/manufacturing.htm>.

²⁹ “Seminole Sponsor Nicaraguan Cultural Program.” *Indian Country Today*. October 11, 2006.

³⁰ A copy of the draft Treaty is available at www.evergreen.edu/nwindians/pdf.papers.

³¹ Most of the material from this section is derived from reports from Treasury, CFED, and the FNDI, which are invaluable and highly recommended.

³² See, for example, the Native Entrepreneurship: Challenges and Opportunities for Rural Communities. Jennifer Malkin. Northwest Area Foundation. December, 2004; Native Entrepreneurship in South Dakota: A Deeper Look. Northwest Area Foundation; State of Minority Business Report. Minority Business Development Agency.

Long before tribal gaming became a national economic development phenomenon, Native peoples were creating and growing small businesses, on and off reservations. Native entrepreneurship can be a ladder out of poverty and into economic stability for low-income families. Many tribal leaders see the importance of culturally relevant entrepreneurship as a business development strategy for tribal communities. However, native entrepreneurs continue to face challenges in starting and growing successful businesses. Some of these challenges include:

- inadequate federal, state and tribal policy support
- lack of entrepreneurship education in the K-12 or college level systems and very few business role models
- incomplete systems of business development resources for aspiring and existing entrepreneurs
- lack of access to appropriate debt and equity financing
- inadequate physical, technological, telecommunications and legal infrastructure
- remoteness from markets and business networks.³³

Institutional Considerations and Tribal Responses

According to the *Native American Lending Study*, only 14% of Native American land in the United States has a financial institution in the community and 15% of Native American people must travel more than 100 miles to reach a bank or automated teller machine (ATM.) Sixty-six percent of non-tribally affiliated financial institutions do not offer start-up business loans on or near Indian reservations, 74.4% do not offer micro business loans, and 71.4 % do not offer larger business loans.

In order to address these biases in the financial marketplace, tribal governments are developing their own financial institutions and creating other vehicles tribal member business development on tribal lands. One innovative approach is the Consolidated Borough of Quil Ceda Village, a tribally chartered political subdivision of the Tulalip Tribes Reservation in Washington state which was established in 2000. The heart of the Village is a thriving business park and retail center anchored by Wal-Mart and Home Depot and including 12 other commercial tenants and a 180-unit shopping mall complete with high-end outlet stores. In June 2003, the Tribe opened its new \$72 million casino on the north side of the Village and directly adjacent to the shopping center. Further expansion of the Village entails a hotel which will open in 2008.

The Tulalip Tribes conceptualized Quil Ceda Village as a vehicle for tribal citizen entrepreneurship. Currently, a number of businesses, including a Port of Subs restaurant, are owned by Tulalip tribal citizens, and an art gallery featuring exclusively local artists is planned. In addition, the Village has created over 400 professional positions which are available with preference to tribal citizens. Additionally, as tribal leaders are quick to point out, the true benefits

Washington, DC: Department of Commerce, 2001; Native American Entrepreneurship Report. First Nations Development Institute. Fredericksburg, VA, 2002.

³³ Ibid.

of the Village run much deeper. The Village has established tribal ownership of a valuable and growing economic base, created and strengthened the decision-making capacity of a local Tulalip political subdivision, and fostered stronger relationships with surrounding businesses and communities. It also provides substantial lease revenue and may someday provide tribal tax revenue—a rare benefit of reservation economies due to the generally balkanized state of tribal tax jurisdiction.

Federal Support for Entrepreneurship

In May, 2005, the U.S. Department of Commerce’s Minority Business Development Agency (MBDA) announced that it will create a new office that will help Native American entrepreneurs and business owners raise revenues, generate jobs and achieve economic self-sufficiency. According to MBDA Director Ronald N. Langston, “Increasing entrepreneurial activity and promoting trade and export opportunities on Indian land is a priority for the Department of Commerce and the Bush Administration... The availability of abundant natural resources, a rich cultural legacy and a spirit of self-determination are economic assets. The Minority Business Development Agency welcomes the opportunity to assist tribal governments in the development of sustainable business growth strategies.”

The Office of Native American Entrepreneurship & Trade will help tribes forge business alliances with communities that surround Indian land and secure outside investment in economic activities on Indian lands. In addition, the Office will play a pivotal role in coordinating federal programs and services that:

- offer financial and technical assistance to increase and expand Native American owned businesses,
- stimulate demand for Indian goods and services through export and trade opportunities; and,
- increase travel and tourism programs to and near Indian lands.

Cultural Considerations

Native communities have a long history of trade and commerce. However, the notion of profiting at the expense of others is often an alienating concept for tribal citizens who want to pursue business development. Recent qualitative research among Native entrepreneurs in South Dakota revealed that there are ways for individuals to reconcile the notion of entrepreneurship with cultural identity as long as it is built upon the tenets of exchanging goods and services for mutual benefit. As described by one Cheyenne River elder interviewed for the report, “Perhaps the question is not how to adapt Native Americans to entrepreneurship, but rather how to adapt entrepreneurship to Native Americans.” This finding reminds those who work to promote entrepreneurship strategies in Native communities that the role of history and culture should be acknowledged, addressed and incorporated into planning efforts. In sum, effective practice begins when entrepreneurship strategies are Native defined and driven.³⁴

³⁴ *Native Entrepreneurship in South Dakota: A Deeper Look*. Northwest Area Foundation.

Business Development Lessons

Data on individual tribal firms is difficult to access but critical for suggesting new directions in federal (and tribal) policy to support business development in Indian Country. In 2001, the National Congress of American Indians (NCAI) developed a valuable dataset from a survey of 70 tribally-owned (and tribal citizen owned) enterprises. The survey responses from these enterprises is unusual in its richness since survey respondents shared information about employment sustainability, profitability, industry sector, location, governance structure, comparative advantages and use of technical assistance.³⁵ The Harvard Project on American Indian Economic Development analyzed the data in order to uncover the relationship between enterprise success, environmental conditions and policy environments.

In order to respect the importance of employment of a measure of success for tribal businesses, Harvard Project researchers defined enterprise success according to both profitability and employment trends. Three strong findings emerged from the analysis:

1. firms with outstanding technical assistance (TA) needs tend to perform more poorly;
2. firms that were tribally-owned tend to perform more poorly; and,
3. firms with non-politicized boards of directors tend to perform better.

A dominant finding in the research and case studies about business development in Indian Country is that effective institutions of self government matter to success. In this case, effectiveness includes at least two components: the insulation of business enterprises from political pressures and the separation of strategic and operational decision-making.³⁶

In addition to tribal government organizational considerations, however, there is also a significant role for federal policymakers to play. The finding that a critical shortage of technical assistance is having a direct negative impact on tribal enterprise success suggests that tribal business development may continue to fall short of its potential without the necessary foundational support. Venture capitalist models of investment, where outsiders provide both managerial talent and organizational advice, may provide a useful model for federal policymakers to consider.

Research on enterprise development also “highlights the fact that the EDA and other agencies of the federal government do not have systems of post-investment appraisal built into their standards operating procedures.”³⁷ The creation of appropriate metrics to evaluate business development could have at least two important positive outcomes: (1) it would provide much-needed data on the full range of tribal business investments; and, (2) it would allow for mid-

³⁵ *Building the Future: Stores of Successful Indian Enterprises*. National Congress of American Indians. 2001.

³⁶ *Ibid.* See also “Improving the Chances for Success in Tribally-Owned Enterprises.” Kenneth Grant and Jonathan Taylor. Forthcoming in Jorgensen, M.R. ed. *Resources for Nation-building: Strategies, Cases and Tools for American Indian Economic Development*. (Tucson: University of Arizona Press.)

³⁷ *Building the Future: Stores of Successful Indian Enterprises*. National Congress of American Indians. 2001, p.14-15.

course adjustments for those tribal businesses that are not succeeding, adding to the body of knowledge about “what works” in Indian Country.³⁸

Conclusion

There are multiple steps in analyzing the needs, opportunities, and challenges for tribal communities that want to engage in business development activities. While each tribal government and individual situation will differ, there is an important role for tribal and federal policymakers in creating opportunities for tribal business development. A shift in federal policies toward tribal self-determination means that business development in Indian Country today is less dependent on federal government prerogatives. However, business development in Indian Country continues to rely upon numerous important factors ranging from a tribe’s access to (or lack of) markets, their development strategy and the institutions in place to support their strategy.

According to academic research, the proper role for government in business development should be to encourage companies to raise their performance, stimulate early demand for advanced products, focus on specialized factor creation and stimulate local rivalry. Since the federal government plays such an important role in American Indian economic development, it seems critical that tribal governments and the federal government strategize together to create opportunities that leverage Indian Country’s unique competitive advantages. Business development success stories in Indian Country—whether by tribal governments or individual entrepreneurs---reveal that the federal shift in support of tribal self determination has provided the critical opportunity for tribal decision making in business development to take hold. As tribal governments continue to set strategy, develop capabilities and leverage competitive advantages, it is critical that federal policies continue to support these endeavors in ways that strengthen tribal governments and facilitate tribal decision-making.

³⁸ The authors of *Building the Future* note that selection bias resulted from that fact that those were willing and eager to respond were most likely to have been successful. Additionally, only one of the sample enterprises conducted any formal post-investment appraisal.

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