Corporate Governance Structures Of Business Entities
In Aboriginal Communities

John Allan Curry

B.Sc. McGill University, 1974
M.A. University of Waterloo, 1979
Ph.D. University of British Columbia, 1995

Project Submitted In Partial Fulfillment Of
The Requirements For The Degree Of
Master Of Business Administration

April 2008

© John Allan Curry, 2008
Abstract

This project examines the development of corporate governance structures of development corporations in First Nations communities in British Columbia and across Canada. The concept is advanced of a close relationship between local community and corporate goals. Discussion focuses on potential conflicts of interest (agency problems) between community political leaders and managers of on-reserve businesses. Three theoretical models were developed — Traditional Native, Economic Development Corporation, and Modern Native — and in-depth interviews were completed in selected case study communities and questionnaires were administered to economic development professionals at the annual conference of the Council for the Advancement of Native Development Officers. The findings from this study indicate that the Traditional Native Model of corporate governance prevails in small communities and that Traditional Native Model Boards of Directors are politicized — not independent from local government. Politicizing of business decisions should be avoided, and checks and balances should be put in place within the corporate governance structure of development corporations.
# Table of Contents

Abstract ii

Table of Contents iii

List of Figures iv

Glossary v

Acknowledgement vii

Chapter One Introduction 1
Purpose of Research 2
Project Outline 3

Chapter Two Hypotheses and Methodology 4
Research Question and Hypotheses 4
Research Design 5

Chapter Three Review of Literature 9
First Nations Communities in British Columbia 9
Stakeholder View on Community Business Entities 12
Industrial Cooperatives of Mondragon, Spain 14

Chapter Four Results and Analysis 20
Models of Corporate Governance 20
Comparison of the BC First Nations Models and Mondragon 27
Case Studies 30
Empirical Results 39

Chapter Five Conclusions 46
Concluding Observations and Recommendations 46
Concluding Comments 50

Bibliography 51

Appendices 53
List of Figures

Figure 2.1: Overview of Research Design 7

Figure 3.1: Mondragon Cooperative Corporation (MCC) Structure 16
Figure 3.2: Internal Structure of an MCC Company 18

Figure 4.1: Traditional Native Model 21
Figure 4.2: Economic Development Corporation Model 23
Figure 4.3: Modern Native Model 26
Figure 4.4: Summary Statistics and Correlation Matrix 42
Figure 4.5: Logit Regression Models 44
Figure 4.6: Evolutionary Process of Business Governance in First Nation Communities 45
Glossary

**Agency Problem**: also termed the principal-agent problem, arises with the separation of ownership (principal) and control (manager) whereby the principal or shareholder cannot monitor the behavior of the manager (agent) effectively, and the manager, therefore, may use the assets of the business to their benefit in the form of perks or other remuneration (Kim and Nofsinger, 2007).

**Business Development**: includes the concepts of economic growth, social considerations of the quality of life, and environmental considerations of ecological integrity.

**Corporate Governance**: is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered, or controlled. Corporate governance is the integrated, interconnected system of relationships among business participants including the shareholders, the board of directors, management, investment banks, auditors, accountants, creditors, analysts, and regulators. It is also the method by which a corporation is managed and controlled through laws, regulations, by-laws, policies, processes, and customs. Additional corporate stakeholders include: employees, suppliers, customers, the environment, and the community at large (Collis & Montgomery, 2005 and Kim and Nofsinger, 2007).

**Development Corporation**: is a unique type of organization incorporated to provide programs, offer services, and engage in development activities that support a unique set of people usually within a defined geographic location. Within a First Nations context, development corporations are set up to promote new venture creation and the long-term management of community-owned businesses. The major purpose of a development
corporation is to create an arms-length relationship, separating day-to-day business
decision-making from community politics (Anderson, 1999 and Decter & Kowall, 1989).

First Nations Peoples: refers to the Indian peoples in Canada. Additionally, some First
Nations peoples have adopted “First Nation” to replace “band” in their communities.

“Aboriginal people” is the collective name for the original peoples of North America.
Recognized Aboriginal people in Canada are Indians (First Nations people), Métis, and
Inuit (Indian and Northern Affairs Canada, 2002).

Shareholder Model: includes consideration only of formal holders of shares in business
corporations. Shareholders or owners, therefore, are the major point of concern in
business development and management. The governance systems focus solely on
incentive and monitoring systems, which protect the interests of shareholders and the
wealth creation for the business and, thus, the shareholders (Kim and Nofsinger, 2007).

Stakeholder Model: considers the responsibilities a business can exercise in improving
the quality of life in society. Primary stakeholders include stockholders, employees,
suppliers, creditors, and customers while secondary stakeholders include community,
society, the environment, competitors, and government (Kim and Nofsinger, 2007).

Wealth: includes economic, social, and environmental factors measured in economic and
non-economic terms.
Acknowledgement

I would like to thank Dr. Han Donker, my supervisor, who provided me with excellent direction in defining the research topic, undertaking this research, and writing the project report. Dr. Donker provided a clear understanding of the dynamics of corporate governance and the operation of business entities. Mr. Rick Krehbiel, in his role as committee member, provided me with his knowledge in the area of First Nations planning and development. Dr. Bob Ellis and Dr. Deborah Poff provided insightful comments during the MBA Project proposal stage of the research.

I would like to thank the people close to me whom I love for their support and understanding during the two year MBA program. A special thank you goes to Deborah Curry who provided a comprehensive copy edit of the project. Finally, I would like to thank my classmates and professors who made this a delightful learning experience.
Chapter One – Introduction

The Federal and Provincial governments are in the process of negotiating treaties with First Nations in British Columbia with respect to the transfer of title over land to First Nations. The expectations are that these agreements will stimulate the economic development of First Nation communities in the near future and will increase social and economic wealth. The Government of British Columbia recognizes the need to augment the First Nations treaty process in order to improve the province’s investment climate and provide economic opportunities for First Nations.

The need is real because the rate of unemployment of First Nations is high and there is slow progress in First Nations increasing their stake in local economies. According to the Aboriginal Peoples’ Labor Force Survey (British Columbia, 2008) reported by BC Stats, the average unemployment rate of North American Indians in northern BC was 16.3% in February 2008, which is almost four times higher than the average unemployment rate of 4.3% for non-aboriginal peoples during this same period. Therefore, there continues to be a genuine need to build further economic development and entrepreneurship in First Nations communities.

This study focuses on corporate governance structures of business entities in self-sufficient communities. In such communities, a close relationship between corporate goals and community goals exists. In many cases, local government, as well as local workers, are the shareholders of these business entities. As a consequence, corporate and local governance are highly related. Examples of such governance structures are: First Nations communities in Canada and employee ownership in the former Republic of Yugoslavia. In other cases, corporate entities play a significant role in community
service delivery. An example of such a governance model is the industrial cooperatives in the Mondragon region of Spain. Business developments in such self-sufficient communities rely on the stakeholder model rather than the shareholder model.

Purpose of Research

The purpose of this research is to explore the unique setting of business development in First Nation communities and to answer the following research question:

What kind of corporate governance structures are in place to serve corporate goals in First Nation Communities?

First Nations communities around the world have suffered disproportionately from the marginalization effects of globalization. While attempting to maintain their culture and traditions, they have been buffeted by ill-conceived efforts at modernization. Within these modernization efforts, however, have been First Nation success stories at developing local economies that take into consideration not only the accumulation of shareholder wealth, but also consideration of the stakeholders of business activities including people, cultures, and concern for the sustainability of nature. This research will explore the unique settings of business entities in Canada and Spain and analyze corporate governance and incentive structures of business developments in First Nations societies. The long-term goals of the research are to: 1. explore methods to increase the success rate of First Nation business entities competing in the larger Canadian and global economy, and 2. illustrate that the stakeholder model of business and community development offers opportunities for the sustainability of First Nations and non-First Nations societies.
Project Outline

The MBA Project proceeds as follows. Chapter One provides context and describes the purpose of the research. The research methodology is explained in the second chapter. Chapter Three reviews the literature, discusses First Nation communities in British Columbia, explores the shareholder and stakeholder models of business entities, and describes the industrial cooperatives of the Mondragon region of Spain. Chapter Four presents the results of the research, including the three models of First Nations community and corporate governance, the case study summaries, the questionnaire results from the 2007 Council for the Advancement of Native Development Officer national conference, and a discussion of lessons learned, which may be applicable to First Nations community economic development in British Columbia. Chapter Five draws conclusions from the research and makes recommendations for further research.
Chapter Two – Hypotheses and Methodology

From an overall perspective, First Nations’ stake in the provincial economy is still quite limited. Considerably more can be done to establish arrangements between industry and First Nations in order to create a stable economic climate and develop new businesses and enterprises. Development of new businesses and business entities are crucial in order to create new emerging markets and economic growth and development of First Nation communities.

Research Question and Hypotheses

This study will focus on corporate governance structures of business entities in First Nation communities and investigates what kinds of corporate governance models are currently used to serve corporate goals. The formation of businesses and entities will raise the following research question:

What kind of corporate governance structures are in place to serve corporate goals in First Nation Communities?

To answer the research question the following hypotheses were developed which state:

Hypothesis One:

The probability of a native organizational structure (Native Model) of business entities on reserves decreases with the increased size of the community.

The Native model is presented in more detail in Chapter Four – Analysis and Results, section Models of Corporate Governance.
Jorgensen and Taylor (2000) and Cameron (1990) observed that First Nations business entities are more susceptible to poor performance and potential bankruptcy when they operate in a setting of direct local level political pressure. A clearly defined separation of band political functions and the role of business entities, therefore, must be maintained. A more detailed discussion of the research of Jorgensen and Taylor (2000) and Cameron (1990) can be found in Chapters Three and Four.

Hypothesis Two:

The probability of a native organizational structure (Traditional Native Model) of business entities on the reserves increases with a board structure, which contains more political leaders.

Hypothesis Three:

The probability of a native organizational structure (Traditional Native Model) of business entities on the reserves decreases with a board structure, which contains more financial and legal expertise.

Research Design

The research design follows a four step process. The first step involved a review of the literature to determine the existing research on the topic and to provide insights into the preliminary research question and the three hypotheses. In the second step, based on knowledge obtained in the literature review, three models of corporate governance – the Traditional Native Model, the Economic Development Corporation Model, and the Modern Native Model were conceptualized. Based upon the knowledge obtained in the first two steps, the third step encompassed undertaking exploratory case studies in which in-depth interviews were conducted with economic development leaders
in First Nation communities. These case studies assisted in the development of questionnaires. In the final step of the process, questionnaires were administered to participants at the Council for the Advancement of Native Development Officers (CANDO) 2007 Annual Conference in Kamloops to determine the stage of governance development of participants at the conference.

A review of literature of the experience of community-based business ownership was completed in Canada and Spain, which resulted in the development of the three theoretical models of corporate governance in First Nation communities. A multiple exploratory qualitative case study approach was employed to provide an in-depth assessment of the current corporate governance structures of business entities in First Nations communities. The merit of this approach is that it facilitates an in-depth assessment of current practices and the background of current incentive and monitoring mechanisms within business entities.

Purposeful sampling was employed to develop a list of First Nations communities in British Columbia undertaking community economic development initiatives.

With the assistance of the Aboriginal Business Development Centre, contact was made with selected communities to develop rapport and a relationship of trust, which prepared the way for a community-based working relationship to undertake action research to explore governance issues and community development initiatives. The research design is summarized in Figure 2.1.

Information collection for each case study included:

- Brief historical overview of community economic development activities.
- Exploration of the evolution of community and corporate governance models.
- Identification of community economic development (CED) successes and failures.
- Analysis of positive factors contributing to success.
- Analysis of limitations and barriers impeding success.
- Reflections about lessons learned.

**Figure 2.1: Overview of Research Design**

1. Review of literature.
2. Develop conceptual models of corporate governance.
3. Identify First Nations Communities in British Columbia undertaking community economic development initiatives.
4. Select First Nations communities for further investigation.
5. Interview key informants in these communities.

The relationship between First Nations organizational structures of business entities and the size of the community was studied utilizing data from a questionnaire administered to development officers at the 2007 Council for the Advancement of Native Development Officers national conference in Kamloops, British Columbia. A Size-Index was developed which incorporated characteristics of: population on the reserve (POP), total number of people employed on the reserve (EMP), number of businesses on the reserve (BUS), and total annual revenues of businesses on the reserve (REV). The Size-Index, is represented in a formula as:

\[ \sum (POP_i + EMP_i + BUS_i + REV_i) \]
where \( POP, \ EMP, \ BUS, \) and \( REV \) are indicator variables for community \( i \). The 
\( \text{Size-Index}_i \) is described in more detail in Chapter Four.

A logit model was developed to measure the relationship between the probability 
of the native organizational structure (Traditional Native Model) of businesses on-reserve 
and the community size and political involvement, which is defined as follows:

\[ NAT_i = \alpha_i + \beta_1 \log \text{SIZE-Index}_i + \beta_2 \text{BCC}_i + \beta_3 \text{BEX}_i + u_i \]

The logit model is described in more detail in Chapter Four.
Chapter Three – Review of Literature

Chapter Three explores First Nations communities in Canada and British Columbia, describes the shareholder and stakeholder models of business governance, and reviews the historical development of industrial cooperatives in Mondragon, Spain.

First Nations Communities in British Columbia

A preliminary review undertaken by the Harvard Project on American Indian Economic Development concluded that poverty in First Nations communities is significantly correlated with governance issues and political institutions and that one indicator of success in First Nations economic development is the improvement of current corporate governance structures (Jorgensen and Taylor, 2000). The researchers note that "First Nations business enterprises that operate in an environment of community political pressure, particularly when strong representation from Council is present on the board of directors of the enterprise, encounter difficulty in "generating ongoing profits for reinvesting in the community or for sustaining employment growth" (Jorgensen and Taylor, 2000). They found that sovereignty matters. When First Nations make their own decisions they out-perform decision-makers from outside the community. They also concluded that culture matters. First Nations culture is a resource, which, if used effectively, can play a significant role in business success.

Institutional characteristics contributing to success include: dispute resolution mechanisms which are perceived as fair, separation of functions of elected representation and business management, and band policies that advance band strategic goals. Expanding on the last factor, there is a need to provide good service to stakeholders while providing separate and quality fiduciary duty to shareholders. Probably the most
significant factor is the creation of "safe havens" for investment, which is highly
correlated with issues surrounding the effectiveness of band political and institutional
governance. The study concluded that businesses with management separated from
elected political bodies encounter higher profitability than businesses where political
representatives participate in management decision-making (Jorgensen and Taylor,
2000).

In northern British Columbia, a study undertaken for the local First Nation
community in Prince George entitled “In Pursuit of Capable Governance: A Report to the
Lheidli T'enneh First Nation” makes the following observations related to their
movement towards self-governance (Cornell, Goodswimmer and Jorgensen, 2004). The
Lheidli T'enneh must ensure economic enterprise is insulated from political influence. A
business development strategic planning process must be incorporated into economic
development activities with a strong focus on revenue generation for enterprise
expansion and reinvestment into community. In the area of human resources, the Lheidli
T'enneh need to focus on the recruitment of knowledgeable employees with
accompanying skills. These employees might then pass on their skills to others,
particularly youth, in the development of skills to support the initiation and growth of
enterprises. Unlike non-First Nations communities, there is a strong need for community
engagement though public participation processes coalescing around a community
development planning process to stimulate and engage community support for
development initiatives. Finally, there is a need for the continuation of visionary
leadership through skills development and succession planning (Cornell, Goodswimmer
and Jorgensen, 2004). First Nations communities experience significantly higher (by a
factor of three) obstacles to business start-up (McBride, 2001). First Nations Land Claims are moving forward in British Columbia and a commonality of these negotiation processes is that land-based resources and financial resources will be available for economic development initiatives, resulting in a high level of new business development activities in the next 20 years. Traditional First Nations societal values will play a pivotal role in influencing future community and business development.

Business development problems (Hindle et al., 2005) currently being encountered in First Nation communities include: lack of business startup information, disconnection from non-First Nation local and regional business networks, lack of encouragement from band office and community members, and complexity of the on-reserve business development process. Changes are needed to create a supportive entrepreneurial environment. McBride and Gerow (n.d.) observe that First Nation communities need to focus on the development of a community economic vision, which identifies roles for entrepreneurs in building the community economy. Policies and procedures must be implemented to support entrepreneurship including: quality business counseling, mentoring and support services, and business networks to the community. This is in line with the stakeholder view. Probably one of the most creative undertakings will be to explore traditional cultural values and beliefs, and through this understanding, explore how traditional cultural elements can support community enterprise. This unique visioning process will identify community projects and community businesses which work with and strengthen common culture and traditional values.
Stakeholder View on Community Business Entities

The mainstream research approach of corporate governance starts from the assumption that the appropriate social purpose of corporations is to maximize shareholder return and shareholder wealth. Advocates of the finance model believe that shareholder interests are best served by corporate policies and managerial activities that maximize corporate value (Shleifer and Vishny, 1997). Within this paradigm, the only concern for a company is to maximize profits or shareholder value. Shareholders are seen as the owners of the company (providers of capital). Capitalist corporations are centers of productive activity whose purpose is to maximize profit for their owners. Ownership (principal) is normally disconnected from the corporation and management staff (agents) are normally hired and provided with incentives to maximize profits to the shareholders. Jensen and Meckling (1976) argued that agency costs arise when ownership and control are separated. Divergences between management’s decisions and those decisions which would maximize the welfare of the shareholders (principals) are considered agency costs. Monitoring managerial activities (monitoring costs), as well as paying managers to expend resources (bonding costs) to guarantee that they will make optimal decisions are considered agency costs. The free market gauges the success of the corporation. Thus, constant adjustments to the delivery of products or services must be undertaken to ensure continued corporate profitability. Social and environmental development is an ancillary activity of the capitalist corporation, if it is considered at all.

This perception of the company gradually changed towards other constituencies (stakeholders). In the stakeholder approach, corporate responsibilities and objectives are not solely focused on shareholders, but also on other stakeholders, such as employees,
customers, suppliers, the community, the government and the environment (Kim and Nofsinger, 2007). Some of these outside stakeholders might seek and earn active roles with respect to managerial decision-making. Identifying the responsibilities towards each stakeholder group and being judged by a wider range of performance indicators makes the stakeholder theory an interesting approach for corporations in First Nation communities, where corporate and social responsibilities and goals are highly related. The stakeholder concept may be a useful approach for introducing new corporate governance structures in First Nations business entities, such as the economic development corporations in First Nations communities.

Local groups, such as band members and the community government, are mostly the main constituency of development corporations. Communal business organizations use capital to support the development of the individual and, in many cases, the larger community. Ownership is tied to people who directly interact with the organization. In the case of consumer cooperatives, the consumer is the owner and in the case of worker cooperatives, the worker is the owner. The principle of one person, one vote ensures that one individual or a small group cannot control the organization. This direct ownership association has resulted over time in expanded business goals beyond simple profitability. Cooperatives are normally involved in social and environmental development of the community and the region within which they operate.

The local constituencies will try to insure that companies act in a socially responsible way taking account of social, cultural, environmental, and ethical considerations. Profitability is not the main focus anymore for companies. Within this paradigm, the company is serving the goals of the community. Agency problems,
however, arise when local politicians, for example Chief and Council, do not act in the best interest of their band members and misuse community companies and development corporations for their own political goals.

**Industrial Cooperatives of Mondragon, Spain**

An alternative model for business governance has flourished in and around the City of Mondragon in the Basque region of Spain since 1956 (MacLeod, 1997). The focus of this alternative model is on industrial cooperatives which are community-based and are complemented by numerous ancillary business support and community development activities and enterprises. In the period 1975 to 1985 the Basque region suffered the loss of 150,000 jobs due largely to world economic readjustments, while in the same time period, the Mondragon complex of industrial cooperatives gained over 4,000 jobs. In response to the economic downturn of the 1970s and 1980s and globalization pressures, the industrial cooperatives reorganized themselves into the Mondragon Cooperative Corporation which today is the seventh largest business organization in Spain (based on annual sales) comprising over 260 companies and with a workforce of over 80,000 (Mondragon Corporacion Cooperativa, 2007).

The basic organizing principles are that workers own their own businesses and that capital is in the service of labor (rather than labor serving capital).\(^1\) The Mondragon Cooperative Movement has maintained a distinct separation from government organizations since its foundation to the present day. The Movement can best be described as cooperative entrepreneurship whereby individual and collective economic

\(^1\) A more detailed description of the basic principles governing the cooperatives of Mondragon can be found at http://www.justpeace.org/mondragon.htm
action is harmonized and the local and larger community is recognized and supported (Morrison, 1991).

After over fifty years of trial and error and the creation of over 260 businesses (with only one bankruptcy in the group of cooperatives) a new enterprise development model is now followed. Normally, a group of friends will initially develop a business concept and approach the Mondragon Cooperative Corporation (MCC) for assistance in financing. Each worker in the new enterprise is required to provide an initial investment, either in a lump sum, or through wage deductions. The Caja Laboral Popular (credit union) provides the remainder of the start-up funds and works closely with the management staff until the cooperative is established and can manage its own affairs (Whyte and Whyte, 1998). The credit union is available for assistance, if required, by the cooperative. Traditionally, this close cooperative relationship has not existed between new business ventures in other regions of the world where traditional banks provide debt financing. If difficulties develop, new venture entrepreneurs outside of the Basque region normally hide problems from their banks rather than seek the expert knowledge available from these financial institutions.

The distribution of profits demonstrates the important connection to the local community. Local charities and community development organizations receive ten percent of the annual profits of all enterprises in the MCC. With sales approaching $10 billion per year, this donation represents a significant reinvestment into the community, mainly in social and cultural development activities. The cooperatives retain forty percent of profits for the "common good" of the organization (business expansion, product or service research and development, etc.), while forty percent of profits go into
worker/owner capital accounts. An underlying philosophy of the Mondragon Cooperative Movement is the creation of flexible internal support entities in the fields of finance, education, research, and international business to place them on the edge of new economic development opportunities. In response to this philosophy, in 1991 the MCC set up the Central Intercooperative Fund, which each year receives the remaining 10% of the profits from individual cooperatives for venture capital purposes.

A final important element of worker responsibility should be noted: at retirement, a worker must draw out their initial investment and profits and interest accumulated annually. Thus, only current workers can hold shares in the cooperatives, ensuring no outside control and ownership.

Figure 3.1: Mondragon Cooperative Corporation (MCC) Structure
The Mondragon Cooperative Corporation (MCC) is comprised of a Congress, a General Council, and three enterprise groupings: Industrial, Financial, and Distribution (Figure 3.1). The Congress is responsible for policy making and members are elected from individual cooperatives. The General Council is the overall management body: responsible for developing, implementing, and coordinating corporate goals, objectives, and strategy. Membership is comprised of the MCC president, vice-presidents, and heads of departments at the Corporate Centre.

The Industrial group is made up of Divisions focused on the production of goods and services. Divisions include industrial systems, automotive, construction, transportation, household, machine tools, and engineering.

The Financial group focuses on banking, insurance, and social security. The Caja Laboral (bank) functions within this group, providing a full range of services. At one time the Business Division of Caja Laboral offered business counseling to new and existing cooperatives, education through university and vocational training centres, and, through Ikerlan, continuing research and development to ensure the cooperatives remain competitive in a constantly changing business environment.

Finally, the Distribution Group is comprised of a chain of hypermarkets and supermarkets, franchise outlets, travel agencies, and gas stations. Cooperative activities also include food services, horticulture, and stockbreeding.

The final element of uniqueness of the Mondragon experience is the governance structures guiding individual cooperatives. At the primary level all individuals belong to a single cooperative and, within the cooperative, to the General Assembly of Worker-Members. Each individual has traditional voting rights (one worker, one vote) to elect a
Board of Directors, which then employs a manager to carry out the day-to-day activities of the business (Figure 3.2). A Social Council is comprised of representatives elected by departments. The main purpose of the Social Council is to facilitate communication between management and workers with the normal concerns relating to health, safety, and other working condition issues.

**Figure 3.2: Internal Structure of an MCC Company**

Cooperatives have traditionally guarded their autonomy by operating independently of other cooperative enterprises. The MCC significantly differs from
traditional cooperatives at this stage by introducing layers of interdependency. At a secondary level cooperatives are organized into zone groupings or divisions. For example, at a secondary or zone level, the grouping of cooperatives may contribute to one cultural or educational project. The power of association, therefore, results in the implementation of significant community development projects, which might be unfeasible for a single cooperative to undertake. At a tertiary level all cooperatives belong to the Congress, which is the highest authority for the MCC. Through agreements and contractual associations, individual cooperatives contribute to financial and social institutions, and, in turn, the Congress can, for example, support an individual cooperative during periods of financial instability.
Chapter Four – Results and Analysis

Chapter Four presents the conceptualization of the three models of corporate governance from the literature, then presents and analyses the results of the case studies and the CANDO questionnaires, and finally compares the results of the case studies and questionnaires with the information obtained from the economic development initiatives of the Mondragon industrial cooperatives.

Models of Corporate Governance

Over the past several decades, corporate governance models have developed in First Nations communities in an evolutionary manner. Three conceptual models, Traditional Native, Economic Development Corporation, and Modern Native, have been developed to illustrate this evolutionary process of corporate governance. Please note that these models are not mutually exclusive.

Traditional Native Model

In the Traditional Native model (Figure 4.1), the Board of Directors of each business is made up solely of Chief and Council. The elected officials have access to the daily operations of band-owned businesses. Cameron (1990) argued that the decision-making processes of these companies are highly politicized as political leaders, such as Chief and Council, act to preserve their positions.

The economic system becomes unstable when a new Chief and Council are elected with different ideas and knowledge. If the new Chief does not hold the same values and aspirations for business development as the business manager, the manager is dismissed and the business loses educated leadership, corporate history and accumulated
knowledge. In addition, liability problems arise when a business encounters a problem resulting, in many cases, with the resignation of Chief and Council.

Figure 4.1: Traditional Native Model

The close association with community politics and dependency of management on the rapid changes of community politics makes it an uncertain and risky business environment for outside investors. Community political interference in local businesses burdens long-term economic development and the development of a well-functioning private sector on the reserves. No independent oversight committee monitors the expenditures of band funds on business developments. The band members solely rely on the prudence and reliability of their leaders without checks and balances incorporated into the governance system.
Many business entities in First Nation territories are bodies — so-called Development Corporations — set up by the local government on the reserve to serve the needs and goals of the local band members and provide financial support for the community. Development Corporations are often charged with the economic development of rural areas within First Nation territories. Many Development Corporations operate on a day-to-day basis at arm’s length from the community government. The Nipissing First Nation Economic Development Corporation (2007), for example, is a not-for-profit entity mandated to develop and improve business development activities on behalf of the community. Another example of a Development Corporation is the Osoyoos Indian Band Development Corporation in the south of British Columbia. The Osoyoos Indian Band posted in their mission statement that the Development Corporation pursues economic self-sufficiency through the training and education of their people which ensures that ‘Pride of Heritage’ will guide them in developing their resources optimally both in socio-economic terms and for the benefit of future generations (Osoyoos, 2007). More specifically, the goals of the Osoyoos Indian Band Development Corporation are to improve the wealth of their Band Members by: increasing the standard of living and education, reducing the political influence within the Band and its agencies, reducing dependency, and creating community involvement that brings back the traditional aboriginal concepts of honor, caring, sharing, and respect and decreases the dependency on government funding. Development Corporations are owned by the Band Members and serve the goals of the local community. Development
Corporations are essentially community-owned corporations that manage local businesses on the reserves.

A major advantage of a band owned economic development corporation is the fact that it is exempt from income tax. The *Canadian Income Tax Act* (Section 149.1) provides an income tax exemption to non-profit organizations (Canada, 2007). This may include Indian-owned corporations, where these have been incorporated for social and welfare purposes. This exemption does not apply to for-profit corporations owned by a First Nation. Municipal authorities and First Nation bands are exempt from paying tax under Section 149.1.c of the *Canadian Income Tax Act*.

**Figure 4.2: Economic Development Corporation Model**

```
Local Government ┌── Band Members ┘
  └── elect ┘
       ├── Chief & Council ┘
       │    └── appoint ┘
       │ └── Board of Directors Development Corporation ┘
       └── Corporate Government ┘
             └── Company ┘
             └── Company ┘
             └── Company ┘
```
As a result of the Constitution Act, 1867 (Canada, 1867) Indian bands are treated as municipalities on a case-by-case basis. Therefore, Indian bands - that perform a function of the Government in Canada - cannot be taxed by the federal government. The tax exemption includes any corporation, commission or association with at least 90% of the capital owned by one or more entities, each of which is a municipal or public body performing a function of the Government in Canada. This is a significant exemption for bands which qualify under the Act, as a corporation owned by the band earning 90% or more of its income on-reserve would be exempt from income tax even if operated for a profit.

The first significant difference in the Economic Development model when it is compared with the Traditional Native model is the establishment of an economic development corporation in an attempt to provide a degree of separation between the band council and the business entities (See Figure 4.2). In most cases, the Chief and Council still appoint the board of directors of the economic development corporation. The same problems appear as in the Traditional Native model: the business system sometimes collapses when a new Chief and Council are elected with other ambitions. In this model, band members are not involved in the appointment of the board of directors.

Some modifications were made during the evolution of this model with respect to the board of directors of economic development corporations. Board members were comprised only of one or two members of council and other members of the community or outside business advisors. When council changes, only a minority of the business board of directors changes, insuring board of director and business continuity.
Jorgensen and Taylor (2000) found that firms with non-politicized boards of directors tend to perform better. Corporate boards that serve as a buffer between the political tasks and duties of local First Nation governments and the technical tasks and duties of managing corporations contribute to higher levels of success. The researchers created a corporate success index based on gross and net income, as well as employment. Further, they reported that band-owned corporations tend to perform more poorly. Both results, however, were not statistically significant. Their research was based on a US sample of 59 band enterprises in 1996. Jorgensen and Taylor (2000) argued that First Nation owned corporations face pressure to increase profits for the local community and pressure to meet other community goals such as employment training. An extra burden is that elected local leaders can interfere in the daily operations of the corporation. A separation of civic governance and corporate governance is crucial for the success of band enterprises.

Their results contribute to Cameron’s conclusions that the role of the elected band government must be separated from business operations and must be limited and clearly defined. Members of the board of directors should have staggered terms that overlap those of elected Chief and Council. Board members of development corporations should be appointed during non-election years. These recommendations reduce the potential for local political interference in economic development corporations.

*Modern Native Model*

In the Modern Native model (Figure 4.3), the Chief and Council, elected by the band members, initially have control over the economic development corporation, but then delegate (based on a legal agreement) responsibilities to a board of directors. The
board members are partly appointed by the Chief and Council and partly elected by the band members.

Figure 4.3: Modern Native Model

A good example of the Modern Native model is the Saik'uz Development Corporation (2007). The board of directors consists of seven members. The four external directors are appointed by the Chief and Council and have three year terms. All of the three community-elected directors have two year terms. The community board members are nominated and elected by the band members and the board is staggered in order to maintain the continuity of knowledge and experience. The board of directors is comprised
of the general population of the community and board directors are responsible for all
decisions and monitor the activities of the Development Corporation. This corporate
governance design allows for more distance and independence with respect to band
politics. Chief and Council have less influence on the nomination and appointment of
board members resulting in a more balanced relationship with the community businesses.

The Officers, including the Chief Executive Officer, Chief Financial Officer, and
Chief Operating Officer, of the Development Corporation manage the companies and take
care of day-to-day business on the reserve. In the Saik'uz model, the Board of Directors
Chairman is appointed by Chief and Council on an annual basis from among the directors.

The Financial Advisory Board is a body that consists of members of the local
community who are experienced in financial, legal, and business affairs and can monitor
the activities of the development corporation. They report to the annual meeting of the
band members.

As long as the development corporation is owned by the band, tax exemptions are
in place. This model restricts appropriation of power by insiders, such as Chiefs, Council
members, and development corporation officers. The Board of Directors and the Financial
Advisory Board are responsible for monitoring the activities of the Development
Corporation. They ensure that continuity is guaranteed for the Development Corporation
with its businesses.

Comparison of the BC First Nations Models and Mondragon

The lessons learned from evaluating the effectiveness of the British Columbia
First Nations model as compared with the Mondragon model coalesce into three major
areas of discussion: governance structures, business ownership, and ancillary business support services.

**Governance Structures**

In Mondragon, the political element of community is separated from the business element of the cooperative movement. Business development evolves in a bottom-up fashion with the individual and small groups playing the lead role in new enterprise development supported by internal Mondragon Cooperative Corporation business expertise. Combined with worker/owner commitment and initiatives, businesses have an exemplary rate of success with the creation of over 260 enterprises and only one bankruptcy.

A set of principles govern business development and expansion. These principles reflect the traditional values and new concepts introduced by the cooperative movement and have shaped decision-making ensuring continuity of tradition while responding to the evolutionary nature of business and community.

First Nations have linked political institutions to business development efforts in the past. This has been identified as the major contributor to poverty issues and the poor performance of First Nations business entities (British Columbia, 2008). The First Nation community governance-business governance model is slowly changing - more rapidly in some First Nations - with the introduction of economic development corporations which separate community politics from business governance.

The more progressive First Nations, for example, the Osoyoos Band, have formalized mission statements, which delineate principles to follow in economic development decision-making. These principles include a focus on heritage and
tradition, education, equitable wealth creation, and decreasing dependency on government. The traditional values and beliefs should shape economic development plans and activities on traditional territories.

**Business Ownership**

The cooperatives of Mondragon demonstrate the power of bottom-up business creation supported by exemplary business support services. Workers, who own a portion of their own businesses, are involved in business decision-making and receive, in addition to wages, a portion of the profits generated from their labour. This system of cooperative entrepreneurship results in capital being controlled by labour and ensures a portion of annual profits (ten percent) are distributed to community stakeholders such as local charities and other community development agencies.

In the First Nations development corporation model, ownership is vested in the community and workers receive only a wage for their labour. They do not have direct decision-making influence, nor do they directly share in the profits from their labour. Development corporation profits may be shared with community organizations, but the worker does not have decision-making influence on where these profits are invested.

The Mondragon model provides three significant attributes, which could be utilized in First Nations communities. The first, direct business ownership, results in direct motivation of worker/owners to focus their efforts towards success in their business development efforts. If their business is a success, they will receive both wages and a portion of the profits, which can result in a substantial addition to their annual wage. The second is in the area of leadership development. If a worker so desires, they can play a role in the management of the business or in new product or service development,
receiving on-the-job training, which benefits the individual and trains business leaders for the future. As is the case in similar situations, these skills are transferable to developing social and cultural organizations in the larger community. The final attribute is in the impact of formalized shareholder benefits. With ten percent of annual profits being distributed to community organizations, the Mondragon region has benefits from over fifty years of development of social and culture elements of their community.

Ancillary Business Support Services

Mondragon has demonstrated the power of effective business support services. The Caja Laboral Popular plays a key role in new venture creation and business expansion. The worker-owned bank illustrates the effectiveness of capital in service to labour. Independent business performance reporting, start-up, expansion, problem resolution, and other counseling service are invaluable to individual cooperatives. Technical, management, and leadership skills advancement is available through a comprehensive system of technical centres and a university. Research and international business agencies ensure that MCC is constantly on the innovative edge and in a position to take proactive action in the evolving economy.

Indian and Northern Affairs Canada has a number of programs in place to deal with community economic development initiatives. Unfortunately, this government-community association perpetuates decision-making outside of First Nation communities and associations of First Nations.

Case Studies

A total of eight confidential case studies were conducted. For the purposes of this research and due to the limitations of the size of the MBA project only two case
studies will be presented. The additional research material is being used for current and future research in the area of corporate and community governance in First Nations communities and will be published in peer-reviewed journals and disseminated to First Nations communities in community development journals and magazines. Results will be presented at future CANDO conferences.

Only two of the three models, the Traditional Native model and the economic development corporation model, were represented in the eight case studies. The information obtained in the in-depth interviews was organized into the following categories: population, employment, business enterprises, organizational structure, successes, weaknesses, and improvements or lessons learned.

Traditional Native Model

The community that displayed the best attributes to be categorized as working under the Traditional Native Model is composed of 290 residents with 140 people living on-reserve and 150 people living off-reserve. There are 120 employees in the band's public and private businesses. A total of 50 people are self-employed, 70 are employed in band businesses, and the other 70 on-reserve residents were referred to by the interviewee as casualties of society.

Organizational Structures

This community has had a tradition of long-term stability due to the extended time the chief (over 25 years) and councilors have been elected. Their political body is made up of chief and two councilors with the terms of office set at a four year term, rather than the traditional 2 year term. The interviewee felt the four year term provided for added stability as it allowed the council sufficient time between elections to focus on
development issues. They have functioned without a development corporation, but they realized several years ago that the size of the band-owned businesses required a more business-like organization to deal with the multi-million dollar enterprises existing and proposed. A Development Corporation, therefore, is proceeding through the steps to incorporation and will be in place in the near future.

The band provides a unique balance between individually-owned businesses and band-owned businesses. There are eight to nine families on the reserve, and the band office is attempting to provide business venture opportunities which match the experience of the members of each band family (construction, retailing, etc.). The band helps subsidize loans to stimulate private business development. Loans are not negotiated from traditional banks (Royal Bank, ScotiaBank, etc.) as conventional lenders have difficulty understanding the tax structure for on-reserve businesses (gross/net revenue are the same due to the absence of taxes). The band and private enterprise on the reserve deal with Peace Hills Trust, a native bank owned by the Samson Cree Nation in Hobbema, Alberta, which is approximately 100 km south of Edmonton.

The band office has developed partnerships with non-band members to quickly develop expertise which is lacking in the community. Once the non-band member moves to another employer, the community has a band member who has gleaned knowledge and expertise, which can be used in future band activities. The band office seeks out band members who are interested in particular business types and then provides educational opportunities in those trades or professions (example: green keepers -- hired non-band expert initially, but also sent members of the band to Olds College and University of Guelph to take courses in golf course management).
Profits from band businesses are placed in a community fund to support their health care system, housing, community centers and to reinvest in business development activities.

Community/Private Businesses

The major business activity in the Traditional Native Model community over the past five years has been the development of a hotel and restaurant. A stand-alone hotel was initially developed, but it ran into financial trouble due to the difficulty of attracting people to fill the hotel, as it was not on the major highway running through the community. The Hotel operators found that the three summer months were high revenue generators, while the following nine months generated very little revenue. In the last several years they moved to a full facility resort concept, including a conference center, a golf course, and a hotel with 72 rooms and a restaurant. The golf course is part of the southern British Columbia/Alberta golf tour on which golfers spend two to three days at each resort. In addition to the resort, there are 210 leases (lakefront water lots) which generate revenue of approximately $2 million per year.

Private enterprises on the reserve include a gas station owned by a band members (one family on the reserve) and mining and construction companies. Future plans include a 100 unit residential complex.

Successes

The economic development professional felt the band had made a number of very good decisions over the last number of years including developing the lease lots and the resort and moving from two year to four year terms for Chief and Council. The longer term creates continuity and a high level of stability in band development activities. The
The band reflects an optimum balance between band businesses and private enterprise. The band has a high quality land-base including lakes, beaches, and other very attractive recreational amenities. In addition, they were fortunate that a large segment of the land-base of their reserve is under Certificates of Possession, which allow band members to secure mortgages on their homes and to invest in quality housing stock.

Possibly the most important success was success itself. Through trial and error, the band office persistently learned from their mistakes and in the process created a harmonious community, creating hope for the future in many of the previously self-marginalized band members. The community, therefore, has created hope, and the children have an opportunity to pursue a positive future.

Weaknesses

The band has reached most of their development goals, or will do so over the next number of years, but there is still what the community development professional referred to as “stinking thinking.” Some band members are unhappy and do not support the initiatives underway in the community. The community development practitioner noted that negative people are very difficult to work with. There needs to be an improvement in communications to inform the community of their successes. The band office would like to find methods to deal with this continuing negativism.

Lessons Learned

The community development practitioner noted that there is a lack of knowledge on how to develop economic opportunities in First Nations communities. For example, the band office encountered significant problems dealing with joint ventures. Another lesson learned was the need to create a communication strategy that supports community
initiatives. The band office would like to learn more about public participation processes, which could address the negativism that seems to continue in segments of the community, regardless of the significant successes in economic and community development.

**Economic Development Corporation Models**

The community categorized as working under the Economic Development Corporation Model, had a population of 450 with 350 people living on-reserve and 100 people living off-reserve. The village is at full employment with only 26 people unemployed due to various medical or social reasons (over half are disabled and can’t work).

Over 520 people draw employment from band businesses, and over 1,000 people gain employment on activities that take place on band lands. The band and its businesses are the biggest economic engine in the region, providing employment for non-band members from the surrounding communities.

**Organizational Structures**

Business decision-making takes place at the band council level, but the economic development corporation is separate from the band council. The Board of Directors is made up of current band council members and past council members. Current membership is: Chief, four Councilors, and two past Councilors. In addition, there are also advisors to the Board of Directors, including ex-bankers and retired and current business people. The Board of Directors of the Development Corporation is appointed by Council for a two year term. Council members have very little business knowledge, and, therefore, depend heavily on the advice of the advisors to the Board of Directors of
the Development Corporation in business related decision-making. Committees of the Development Corporation are set up with membership from band Council to create a bridge between the political and economic development functions of the community leadership and to offer educational development opportunities to Chief and Council.

The chief is also the band administrator, the CEO, and the chairman of the board of the development corporation. The band recognizes that a great deal of responsibility is held by the current Chief, and they, therefore, are currently exploring a new organizational structure for community and development corporation governance.

Strategic planning and business opportunity analysis is undertaken by the development corporation. The band companies are operated as limited partnerships. There are no by-laws defining the distribution of profits. The current un-written rule is that ten percent of pre-depreciation, or sixteen percent of post-depreciation profits, go to the band office to be turned back into social development initiatives. Profits to the band office are at a level of approximately $300,000 per year.

Community/Private Businesses

Band businesses include a construction business, redi-mix concrete, a recreational vehicle (RV) park, a major winery, a five star resort (joint venture), land lease activity (over 1,000 acres of land), and a new vineyard operation.

The community development professional noted that the community espouses a capitalist philosophy in their investment strategies. He noted that it is not the job of the economic development agency to train entrepreneurs to make money – “our job is business development.” While the original economic development goal was focused on employment generation, the new goal is to create economic wealth for the band. Many
bands focus on the development of band leadership and the development of community members into entrepreneurs, while this band has focused their efforts on the creation of community businesses.

Over the last five years the band has generated $100 million in capital projects, and over the next five years the band projects to generate an additional $100 million in capital projects. This has had a significant multiplier effect on the local and regional economy. Approximately 50% of each company employs band members or the spouse of band members. Band-owned businesses generate approximately $20 million in revenue per year.

Successes

Successes come from hard work and perseverance and a good sense of entrepreneurialism. As the economic development professional noted, “we don’t ask for permission, we ask for forgiveness.” He considers the band as being masters of accessing government funding.

So much of their success is attributed to the Chief who has been a master of long range strategic planning. The Chief does not micro-manage decisions, is aggressive in promoting business opportunity ideas, and highly effective in marketing the products and services of existing band businesses. Due to the high level of complexity in running and managing the band and their businesses, the band spends $190,000 per year on human resource development to insure managers have business skills. He also noted that continuity, success, and the reduction of risk are based on succession planning.
Utilization of reserve land in a proactive manner has also been another success factor. Band-owned freehold land has created cash for the band which has also allowed them to borrow money for business development.

**Weaknesses**

A number of weaknesses were also identified. The community development worker noted Indian and Northern Affairs Canada (INAC) is the weakest link in attempting to create a quality of life in the community. Their success and the booming regional economy has created a severe skill shortage impeding and/or significantly increasing the costs of developing new projects.

Another significant weakness is that all the band business development knowledge is contained within two individuals. With the complex coordination function between company managers and the overall management of the development corporation, there is a strong educational function in human resources in an attempt to resolve management problems. As noted above, succession planning is a current top priority due to the lack of exploring succession planning in the past.

**Lessons Learned**

Experienced leadership plays a significant role in developing a strong vision for the community. The community development professional concluded that the band has to become even more proactive in the strategic planning process, rather than consulting the community on each issue/new business proposal. 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 the time by nay-sayers.
Finally, human resource development may be the greatest lesson learned by this band. They must develop band members who have proven experience, particularly business experience, and good financial skills. He noted this can only be achieved by formulating professional development strategies to improve the education and effectiveness of staff.

Empirical Results

The knowledge gained from the case studies was utilized in the development of the questionnaire. To examine the relationship between First Nation organizational structures of business entities and the size of the community, a questionnaire was developed and administered to development officers at the 2007 CANDO national conference on aboriginal economic development in Kamloops. A total of 31 questionnaires were returned from the 70 attendees at the conference session. In addition, questionnaire data was collected from eight in-depth interviews during visits to First Nations communities in northwestern British Columbia and southeastern British Columbia during the summer of 2007. In total, questionnaire data was collected from 39 First Nations communities across Canada.

In order to measure the size of the communities, a Size-Index was developed which incorporated the following characteristics: population on the reserve (POP), total number of people employed on the reserve (EMP), number of businesses on the reserve (BUS), and total annual revenues of businesses on the reserve (REV). Each indicator is scaled between one and four. Community population was categorized into: small (1-500), medium (501-1000), large (1001-5000), and very large (more than 5000) people (POP). Employment on-reserve was categorized into: small (1-200), medium (201-506),
large (501-1000), and very large (more than 1000) employees \((EMP)\). Business activities on the reserve were measured by the number of firms \((BUS)\) and the annual revenues of the firms \((REV)\). Business size was categorized as small (1-5), medium (6-10), large (11-15), and very large (more than 15) businesses on the reserve. Revenues of the businesses were categorized as: small ($0-1$ million CDN), medium ($1-5$ million CDN), large ($5-10$ million CDN), and very large (greater than $10$ million CDN) in annual revenue.

The \(Size-Index\) was defined as:

\[
\sum (POP_i + EMP_i + BUS_i + REV_i),
\]

where \(POP, EMP, BUS\) and \(REV\) are indicator variables for community \(i\). The variables were scaled as follows: small (= 1), medium (= 2), large (= 3), and very large (= 4). The \(SIZE-Index\) was divided by 16 to give a range of (0.25 = minimum) to (1 = maximum).

The empirical research distinguished between a native organizational structure of business entities and a modern organizational structure, which includes a development corporation. Business entities under the umbrella of a Development Corporation Model operate more independently from the local band government and community politics than under a Traditional Native Model. Since there is a certain evolution in models, the Traditional Native Model is defined as the first model, which exists in First Nation communities. It is anticipated that the Traditional Native Model is more common in small First Nations communities \((H_1)\).
The following hypothesis was developed which states:

_Hypothesis One:_

*The probability of a native organizational structure (Traditional Native Model) of business entities on reserves decreases with the increased size of the community.*

It is anticipated that the political involvement in the business activities on the reserve is more intensive in the native organizational structure (Traditional Native Model). The political involvement was measured using the fraction of board members (BCC) that are political leaders; such as Chief and Council (H₂). The role of financial and legal expertise in the board (BEX) was also explored. It is anticipated that board members with financial and legal expertise will opt for a more independent organizational structure such as a development corporation (H₃).

The second and third hypotheses were developed which state:

_Hypothesis Two:_

*The probability of a native organizational structure (Traditional Native Model) of business entities on the reserves increases with a board structure, which contains more political leaders.*

_Hypothesis 3:_

*The probability of a native organizational structure (Traditional Native Model) of business entities on the reserves decreases with a board structure, which contains more financial and legal expertise.*
Figure 4.4 reports descriptive statistics and the correlation matrix for the sample of 39 questionnaires. SIZE of the First Nation community, as discussed in Chapter Three, is measured by an equally weighted Index. The variable BCC represents the fraction of business board members that are Chief and Council while BEX is the fraction of business board members that are accountants, lawyers, or consultants.

The descriptive statistics for the key variables for 39 First Nations communities across Canada are presented in Panel A of Figure 4.4. The population of First Nations communities (POP) is on average 200 to 500 (medium size) and the employment (EMP) is on average at a level of 1 to 200 employees. There are on average 6 to 10 companies on-reserve with total revenue of $1 to 5 million CDN.

<table>
<thead>
<tr>
<th>Panel A: Summary Statistics</th>
<th>Panel B: Correlation Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Median</td>
</tr>
<tr>
<td>Index</td>
<td>0.45</td>
</tr>
<tr>
<td>POP</td>
<td>2.05</td>
</tr>
<tr>
<td>EMP</td>
<td>1.44</td>
</tr>
<tr>
<td>BUS</td>
<td>1.95</td>
</tr>
<tr>
<td>REV</td>
<td>1.86</td>
</tr>
<tr>
<td>BCC</td>
<td>0.47</td>
</tr>
<tr>
<td>BEX</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Panel B of Figure 4.4 illustrates the correlation between the variables. As anticipated, the correlations between POP, EMP, BUS, and REV are very high. The Size-Index variable, therefore, is a good proxy for community size.

Corporate boards in First Nations communities are heavily composed of Chief and Council. On average 47% of the board members of the business entities on-reserve are comprised of Chief and Council. This implies that there is a very close connection...
between the local government and community politics, and the business activities in First Nation communities.

In order to measure the relationship between the probability of the native organizational structure (Traditional Native Model) of businesses on-reserve and the community size and political involvement, a logit model was developed which is defined as follows:

\[ NAT_i = \alpha_0 + \beta_1 \log SIZE-Index_i + \beta_2 BCC_i + \beta_3 BEX_i + u_i \]

Where,

- **NAT** is an indicator variable that represents the business model which is used on the reserve. \( NAT \) is equal to one, if the Traditional Native model is used, otherwise \( NAT \) is equal to zero.
- **SIZE-Index** measures the community size and contains the following indicators: the population on the reserve (POP), the total number of people employed on the reserve (EMP), number of businesses on the reserve (BUS), and the total revenues of the businesses on the reserve (REV).
- **BCC** is the fraction of board members that is Chief and Council.
- **BEX** is the fraction of board members that are accountants, lawyers, or consultants.

Figure 4.5 illustrates the results from the logit regression model of the indicator variable \( NAT_i \). Figure 4.5 demonstrates that the coefficient for **SIZE** is negative and statistically significant at the 5 percent level for both logit regressions. The coefficient for **BCC** is positive and significant at the 5 percent level. The coefficient for **BEX** is insignificant. The coefficients of **SIZE** and **BCC** have the predicted sign. The results confirm \( H_1 \) and \( H_2 \), which suggests that the probability of a Traditional Native model
decreases with the size \((SIZE)\) of the community and increases with the involvement of local political leaders \((BCC)\).

**Figure 4.5 Logit Regression Models**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Expected Sign</th>
<th>Logit Model 1</th>
<th>Logit Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>+/-</td>
<td>-2.070**</td>
<td>-7.566**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>((p=0.05))</td>
<td>((p=0.05))</td>
</tr>
<tr>
<td>log SIZE-Index ((SIZE))</td>
<td>-</td>
<td>-1.777**</td>
<td>-4.352**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>((p=0.04))</td>
<td>((p=0.05))</td>
</tr>
<tr>
<td>Board Independence ((BCC))</td>
<td>+</td>
<td>-</td>
<td>3.686**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>((p=0.04))</td>
</tr>
<tr>
<td>Board Experience ((BEX))</td>
<td>-</td>
<td>-</td>
<td>0.999</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>((p=0.63))</td>
</tr>
</tbody>
</table>

**Statistics**

<table>
<thead>
<tr>
<th></th>
<th>(n=34)</th>
<th>(n=23)</th>
</tr>
</thead>
<tbody>
<tr>
<td>McFadden</td>
<td>(R^2=0.07)</td>
<td>(R^2=0.36)</td>
</tr>
<tr>
<td>LR</td>
<td>3.27*</td>
<td>8.66**</td>
</tr>
</tbody>
</table>

*, **, *** significant at the 10%, 5%, 1% level (two-sided tested);
†, ††, ††† significant at the 10%, 5%, 1% level (one-sided tested); p-values in parentheses.

Based on the results of the previous analysis, Figure 4.6 offers a graphic representation of the evolutionary process of business development in First Nations communities. As the \(SIZE\) (as defined by the four variables \(POP, EMP, BUS,\) and \(REV\)) of the community increases, the entities will begin under a Traditional Native Model, then move to a Development Corporation Model, and finally evolve to the Modern Native Model. Many communities due to population limitations, location factors, or resource constraints will remain at the Traditional Native Model level. Governance structures, therefore, such as development
Figure: 4.6: Evolutionary Process of Business Governance in First Nation Communities

+ represents a community in the Traditional Native Model, * represents a community in the Development Corporation Model, and # represents a community in the Modern Native Model.

corporations or other mechanisms, need to be but in place to separate the political activities of the community from the management functions of community businesses. This evolutionary concept should be further investigated in future research exploring corporate governance in First Nation communities.
Chapter Five Conclusions

From an overall perspective, First Nations' stake in the provincial economy is still quite limited and considerably more can be done to establish arrangements between business and First Nations to create a stable economic climate and develop new enterprises. Development of new businesses and business entities are also crucial in order to take advantage of new emerging markets.

Concluding Observations and Recommendations

The corporate governance structures of business entities in First Nation communities have undergone significant progress over the past several decades. More checks and balances are now incorporated into governance structures and development corporations are more separated from community political activities. Transparency, independency, and accountability are key words for the design of proper corporate governance structures. Close associations between band government and the management of development corporations are highly desirable for business success and improvement of socioeconomic circumstances, but a unique balance is required to insure conflicts of interest are avoided. Proper structures and procedures should be in place to reduce diffused decision-making structures.

Based on an analysis of the conceptual models of business governance in First Nation communities and the case studies, the following two recommendations are put forward:

Recommendation One

In order to facilitate market forces, encourage outside investors, and improve the corporate governance structure of Development Corporations in First Nations
communities, the Board of Directors should become more independent of Chief and Council in order to more efficiently monitor the activities of incumbent management of development corporations. Development Corporations should function more independently from local politics.

**Recommendation Two**

A separate committee is recommended for nominating the Board of Directors. The chairperson, directors, and Chief and Council should be members of the nomination committee. Band members should finally elect the Directors of the Development Corporation at the annual meeting. In addition, band members should have an option to nominate Directors independently from the nomination committee.

The unique relationship between community and business in the Mondragon region of Spain was explored and governance structures, business ownership, and ancillary business support services was compared with First Nation communities. Many lessons can be learned through further exploration of Mondragon and similar overarching business entities, which are closely associated with their communities. The strong features of the Mondragon system are the access to capital, the business support by the umbrella organization, and worker ownership. The MCC functions like a venture capitalist organization, insuring a steady flow of funds in support of new venture development. In addition, the Caja Laboral provides local capital for the worker-owned MCC companies. This financing is based on local decision-making rather than driven by
decision-making in head offices far removed from the community. First Nations communities in British Columbia do not have access to capital in a similar manner.

Business support services, such as business planning, market research, counseling, and education are an integral part of the Mondragon Cooperative Movement, supporting business start-up, expansion, and problem resolution. The development corporation model has similar business support services available, but not at the level of development of the Mondragon model. The opportunity exists to create an association of development corporations, which could invest in the education of First Nations individuals in business counseling and entrepreneurship.

Finally, worker ownership is a cornerstone of the Mondragon model. Worker ownership provides incentives for business success. Worker/owners receive 40% of annual profits, in addition to their wage. The remaining 60% is invested in the local community (10%), reinvested in coop company expansion (40%), and venture capital opportunities (10%). In the case of First Nation communities, ownership is by the community rather than the individual worker.

Based on an analysis of the model of business governance in the Mondragon Cooperative Movement in Spain, the following three recommendations are put forward:

**Recommendation Three**

A British Columbia First Nations Bank is recommended to improve access to capital through providing functions comparable to a venture capitalist organization or community bank similar to the Peace Hill Trust of the Samson Cree Nation of Alberta or the Caja Laboral of Mondragon, Spain.
Recommendation Four

Strengthening the aboriginal business development services is recommended in British Columbia to provide such business functions as strategic planning, market research, counseling, and education to supporting business start-up, expansion, and problem resolution.

Recommendation Five

Exploring the opportunities to expand the current form of business ownership from band businesses and private enterprise to include worker ownership is recommended.

The Size-Index incorporating the characteristics of population on the reserve (POP), total number of people employed on the reserve (EMP), number of businesses on the reserve (BUS), and total annual revenues of businesses on the reserve (REV) accurately reflects community size. The results of the Logit Regression analysis confirm that the probability of a Traditional Native model decreases with increasing SIZE of community. Due to many factors, First Nation communities may not grow to a size that would result in the evolution of a Development Corporation Model or a Modern Native Model, but governance structures will still be required to separate political activities of the community from the management functions of community-owned businesses.

Based on the Size Index and Logit Regression analyses of business development activities in First Nations communities, the final recommendation is put forward:
Recommendation Six

Regardless of the SIZE of community, it is recommended that the local political activities are separated from the management activities of community-owned businesses using development corporations or other institutions/organizations.

Concluding Comments

This project provides a clearer understanding of the forces, opportunities, and barriers to business development in First Nation communities and develops effective models of community and corporate governance. Opportunities for future research can be indentified in any of the recommendations. A comprehensive research program addressing these recommendations will result in the development of First Nations capacity to identify, develop, and manage successful corporate entities, which will support unique community cultures and values and will compete effectively in regional, national, and international marketplaces.

Community planning and business development research tends to focus on barriers to development and methods and to improve currently negative conditions. The Modern Native Model for First Nations’ corporate governance should be further explored to determine if the model will be effective, subject to adaptations to local conditions, in addressing the needs of community economic development.

In conclusion, it should be noted that First Nations are encountering many major successes in developing harmonious communities: in these successes may be the beginnings of a new sustainable model of community level business development, which takes into consideration people, traditional cultures, and concern for the sustainability of nature.
Bibliography


Canada. 1867. *Constitution Act*. 1867, s. 91(24).


Appendices

Appendix One – Cover Letter to First Nation Communities

Appendix Two – Interview Questionnaire

Appendix Three – Community/Corporation Governance Survey
Appendix One – Cover Letter to First Nation Communities

UNBC UNIVERSITY OF NORTHERN BRITISH COLUMBIA

Dear ??

My name is John Curry and I am a professor at the University of Northern British Columbia in the School of Environmental Planning. I am writing to you to enquire whether I and a fellow professor, Han Donker from the School of Business, can interview you for about 1½ hours to discuss the history and current activities of your band in the area of community economic development. We will be in your area the week of INSERT DATE?? and would like to set up an interview appointment on INSERT DATE??

Please advise by return email whether this date is appropriate or please suggest an alternative date during the week of INSERT DATE?? Could you also provide directions to your office.

As you will note below, we are exploring background information to be submitted to the Journal of Aboriginal Economic Development and other business and entrepreneurship journals. The purpose of this study is to explore how First Nations communities are successfully pursuing business development opportunities and share this information with British Columbia First Nations and other communities.

Our initial investigation is in the area of corporate governance and business development corporations.

Please see the information below on the first outcome of our research. A full copy of the paper is available upon request.

We look forward to a response to this interview request at your earliest convenience.

Sincerely,

Dr. John A. Curry, Associate Professor
School of Environmental Planning
University of Northern British Columbia
3333 University Way
Prince George, British Columbia
Canada, V2N 4Z9

250-960-5837 telephone (university)
Appendix Two – Interview Questionnaire

Corporate Governance Structures of Business Development Corporations in Aboriginal Communities

Interviewers: John Curry, Ph.D., Associate Professor, School of Environmental Planning, University of Northern British Columbia, British Columbia

Han Donker, Ph.D., Associate Professor, School of Business, University of Northern British Columbia, British Columbia

Semi-Structured Interviews with economic and/or leaders of First Nation Communities.

Interview Questions:

1. Can you provide a brief historical overview of economic/business development in your community?
   a. Probe questions
      i. Do you have an economic/business development corporation?
      ii. What are the current community governance - business development organizational structures? (What is the relationship between the Band Council and the economic development corporation?)
      iii. Are the members of Development Corporation Board of Directors appointed or elected? If appointed, by who? Do any Directors have designated representation (to Clans, Chief & Council, etc.)?
      iv. What is the term of office of members of Board of Directors (number of years)?
      v. Are they all elected at the same time or staggered?
      vi. Describe the type of companies, number of employees, number of managers (appointed or elected).
      vii. What sources of financing do you used to set up/expand your businesses?
      viii. How are the profits distributed?
      ix. Are there non-development corporation businesses in the community?
      x. What are the relationships between outside businesses?
      xi. Do you have partnerships with outside businesses?
      xii. What is the knowledge/education level in the area financial expertise of Board of Directors?
      xiii. Are financial records/annual reports of the development corporation public knowledge? If so, can we get copies for our research?
2. Please describe the successes your community has encountered in economic development initiatives?

3. Can you analysis or reflect on the positive factors in your economic development success? How can these factors be enhanced or encouraged?

4. What are the problems or barriers impeding economic/business development in your community?

5. How can these problems or barriers be overcome?

6. Can you reflect on the lessons (both positive and negative) that you have learned in your community economic/business development efforts?

7. Do you have any questions of us or the research we are undertaking?
Appendix Three – Community/Corporation Governance Survey

Community/Corporation Governance Survey

CANDO 2007 Annual Conference Kamloops

In this survey we would like to ask you some questions about the governance structures in your community and in your band organization.

This information will be completely confidential with only the researchers (Dr. John Curry and Dr. Han Donker, UNBC) viewing the original survey information. You name and/or organization will not appear on the survey.

We are handing out a separate sheet which you can indicate if you would like the results of this survey and cooperate in future research.

1. Community Characteristics

A. What is the size of your community on the reserve?

<table>
<thead>
<tr>
<th>Check One</th>
<th>1-500</th>
<th>501-1000</th>
<th>1001-5000</th>
<th>More than 5000</th>
</tr>
</thead>
</table>

B. What is the total employment (private and band businesses) on the reserve?

<table>
<thead>
<tr>
<th>Check One</th>
<th>1-200</th>
<th>201-500</th>
<th>501-1000</th>
<th>More than 1000</th>
</tr>
</thead>
</table>

C. How many businesses are on reserve?

<table>
<thead>
<tr>
<th>Check One</th>
<th>1</th>
<th>2-5</th>
<th>6-10</th>
<th>11-15</th>
<th>More than 15</th>
</tr>
</thead>
</table>

D. What are the total revenues of the business activities on the reserve?

<table>
<thead>
<tr>
<th>$ million</th>
<th>0-1</th>
<th>1-5</th>
<th>5-10</th>
<th>More than 10</th>
</tr>
</thead>
</table>

E. Is there a development corporation on the reserve?

<table>
<thead>
<tr>
<th>Check One</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

2. Organization Structure

A. Of the three organizational structures discussed in the presentation, what organizational structure most closely matched the one in your community?

<table>
<thead>
<tr>
<th>Check One</th>
<th>Native Model</th>
<th>Development Corporation</th>
<th>Modern Model</th>
</tr>
</thead>
</table>

57
B. Is the current organizational structure appropriate for the current business activities in your community?

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One

C. Is there a long term plan in place to achieve community goals?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One

D. Is the current governance structure of businesses appropriate for the achievement of community goals?

3. Board of Directors -- Development Corporation – answer only if your community has a development corporation

A. If you have a development corporation how many members are on the Board of Directors? ______ number of members.

B. How many board members are Chief and Council? ______ number of members.

C. How many board members are business professionals (such as accountants, lawyers, consultants) on the Board? ______ number of members.

D. Who nominates new Board of Director members?

<table>
<thead>
<tr>
<th>Band Members</th>
<th>Chief/Council</th>
<th>Present Board Members</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One

E. Are the members of the Board of Director appointed or elected?

<table>
<thead>
<tr>
<th>Appointed</th>
<th>Elected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One

F. What is the term of the Board of Directors?

<table>
<thead>
<tr>
<th>1 Year</th>
<th>2 Years</th>
<th>3 Years</th>
<th>More than 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One

G. Are there job descriptions for the Board of Directors?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One

H. If there are situations of conflict in the development corporation (including the Board of Directors) are there procedures to deal with this conflict?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check One