Conditions for Economic Success in First Nations Forest Enterprises

by Ronald Trosper, Harry Nelson and Peggy Smith

Highlights

• First Nation forest enterprises that involve collaborative arrangements can take a variety of forms, such as joint ventures and community-owned firms that enter into agreements with outside firms.

• Although a First Nation's primary goal for an enterprise may not be economic development, profitable enterprises are instrumental for achieving other community goals, such as employment and capacity building.

• Profitable enterprises require that political influences over day-to-day business decisions be managed effectively and a certain level of autonomy established in order to ensure appropriate decision-making over how enterprises should operate.

• Formal institutions and operating rules can be used to prevent politics from overriding daily business management and decision making while still contributing to strategic long-term planning.

• When the institutional environment is stable, standard business planning factors can be used successfully.

First Nation forest-based enterprises have been a priority in Canada in recent years as a means to improve Aboriginal people's well-being and provide opportunities to affect how local lands are managed. Many of these economic enterprises have taken the form of joint activities organized by First Nation communities and industrial partners or community-owned enterprises.
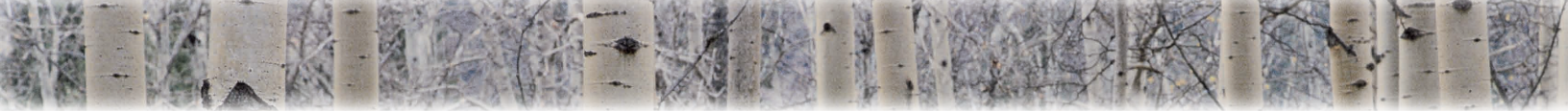
Studies conducted in the United States have investigated how the actions of Native nations themselves can either undermine or strengthen their own enterprises. They have found that five governance factors under Native nations' control can contribute to economic success:

• clarity about enterprise goals;

• effective management of the politics-business connection;

• the purpose, power, and composition of enterprise boards of directors;

• independent and reliable resolution of disputes, and;

• the need to educate the community about enterprise goals and activity.

First Nation communities often have many goals or objectives when starting an enterprise. However, if an enterprise is not economically viable, then it is unlikely to help the community meet any of their other objectives. Profit does not have to be high, so long as the firm is able to sustain itself. An enterprise for which costs exceed revenues must draw upon community funds, reducing the long-term likelihood of achieving other goals. This research note summarizes research about the conditions required for First Nation enterprises to be successful, as measured by profit.

Characteristics of profitable First Nations enterprises

A study conducted at the University of British Columbia examined the role of governing institutions in First Nations forest enterprises in British Columbia. The study surveyed 40 First Nations enterprises, of which 25

were profitable and 15 were not. The enterprises were a mixture of logging, tree planting, sawmilling and forest planning, all with significant band ownership. Survey results found the following elements were associated with profitable enterprises: formalized governance structures, involvement in forest management planning and the role of traditional leaders.

Governance

The study confirmed the importance of effectively managing the relationship between day-to-day business decisions (vs. long-term strategic business decisions) and political decisions. Doing so greatly increases the likelihood of profitability. Supporting this factor is political stability, along with staggered terms for elected officials. If the First Nation had been under third-party financial management by the Department of Indian and Northern Affairs—a situation in which DINA determines that a First Nation is unable to manage their own financial affairs, removes the ability of the First Nation to manage those affairs and appoints an external financial manager—the odds of profitability were lower. Effective governance can assist in successful operation of business activities.

Effective governance rules in all societies have several key characteristics:

- First, they have dispute resolution procedures that work.
- Second, these rules insulate day-to-day economic business decisions from political interference.
- Third, the rules provide a clear identification of people's roles and responsibilities, both within the enterprise and within government.

The surveyed enterprises noted that the relationship between political leaders and managers of firms can be complex, at times making true "separation" of business and politics challenging. Particularly important is adequate communication. Too much separation could lead to poor decisions by outsiders who do not understand the complexities of regulations affecting businesses on reserves. It was important that political leaders understood business realities and were informed about what businesses are doing in order to manage successfully the politics-business management relationship.

Political stability can be reflected in several ways. Staggered terms for band council leaders were important, possibly together with longer terms. While a history of third-party financial management did have a negative effect on the enterprise's profitability, it was not clear if this also applied in cases where third-party management occurred many years ago. Nonetheless, political stability was identified as an important element in enterprise profitability.

Other elements that can contribute to community stability include: capacity-building (which includes not only training and expertise within the community but also financial strength); creation of a stable land base; self-governance (separation from the Indian Act); economic development planning that helps reduce reliance on external sources of funding; and having a constitution.
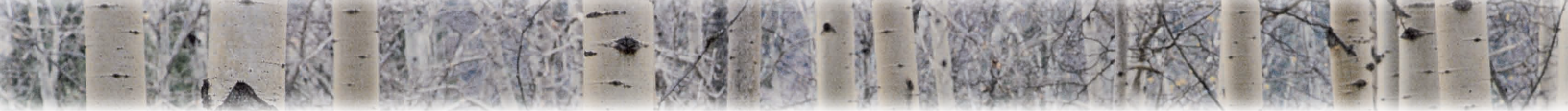
Forest management planning

The study found that enterprises that were involved in forest management planning (e.g. In B.C., through a third-party license issued by a tenure holder) were more likely to be profitable. By being involved in forest planning, firms were better able to identify timber most suited to profitable harvest, since such forest planning is the main activity of management planning in forest tenure. First Nations' involvement in forest management planning indicates a greater scope for decision-making within the enterprise and, in the case of collaborative enterprises, may provide more autonomy to a band-owned enterprise within an industry partnership.

Role of traditional leaders

An enterprise was found to be slightly less profitable when there was a formal role for elders or hereditary chiefs in the decision-making process in the community. Possibly these results indicate a lack of clarity about enterprise goals, or perhaps hereditary chiefs or elders place greater significance upon environmental, social, cultural and other values relative to the economic benefits of business. However, strong conclusions should not be drawn based solely on this project due to the weak statistical relationships noted, therefore further study is suggested. The conflict between caring for the land and harvesting timber may result in actions that hurt the profitability of a timber-oriented business (while sustaining other values and objectives) because current provincial forest tenures emphasize timber values and timber volumes. Changes in provincial forest tenures that

reduce the emphasis on meeting timber volume targets could change the impact of traditional values on business profitability by reducing conflicts with non-timber values. Case studies may assist in further research.

The establishment of a formal role for elders may be interpreted in several ways. One interpretation could suggest that formal roles indicate that current governance institutions are not perceived as offering sufficient checks and balances (for example, it may be felt that the enterprise by its very nature gives too much weight to economic objectives and there is not a counter-balancing force), in which case governance arrangements may need to be examined. Alternatively, a formal role for elders could be seen as a sign of inclusivity, and a reflection of community functioning where traditional knowledge is incorporated in decision-making processes.

Other factors

Factors that might be thought to influence the probability of success, such as the size of the business and the number of years that it had been in operation, did not significantly affect the enterprise's profitability.
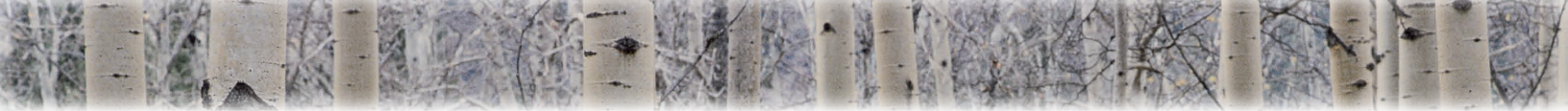
In a subsequent workshop held to review the survey results, a number of participants in such enterprises highlighted additional factors they felt were important in contributing towards successful enterprises. These ranged from specific recommendations such as detailed financial and personnel policies and training, to more general ones such as promoting accountability and transparency. Facilitating access to capital was considered just as, if not more, important as efforts to make fibre available. The participants all supported the main research finding, agreeing that politics had to be kept out of day-to-day business operations. However, many also emphasized it was important that the enterprise was seen as legitimate from a community perspective and was assisting in some way in meeting community aspirations, especially employment and capacity building.

Finally, while the study identified institutional criteria that indicate increased chances of profitability, the presence of those institutions may reflect the capacity of that particular community, including not only the human but social capital within that community. Therefore, while the study provides a "snapshot" of such enterprises, revealing some that are profitable and some that are not, the results do not capture the development of community capacity that

Management Recommendations

First Nations and others planning or restructuring collaborative forest enterprises together with First Nations may want to consider the implications of the research results. It is imperative (if the First Nation has not already done so) that they implement effective governance. Effective management of the politics-business management relationship can be achieved in several different ways.

- Establish a board of directors that is separate from political bodies. Formal or informal rules may also prevent elected officials from being involved in day-to-day operations. In order to ensure impartiality, independent bodies can adjudicate disputes, or formal procedures can address grievances.

- Stability of the rules governing the environment in which the enterprise operates also enhances performance. Political bodies have a role in setting long term strategy and community goals. One way to achieve stability is to have staggered terms for elected officials for band-owned businesses, preventing a complete turnover of political leadership every few years.

- Training can also be an important component, not only for the enterprise itself, but also for political leadership. Such training can clarify the roles and objectives for managers, employees, and politicians, as well as providing the skills necessary to effectively carry out their responsibilities (e.g. board of directors' training in reading and interpreting financial statements).

- Reporting can also be a key ingredient. Not only does it provide a way to continually assess performance and ensure accountability but it contributes to transparency, making sure that leaders and the community know what is going on. Given the establishment of the appropriate governance mechanisms, decision-makers can then focus on developing sustainable economic enterprises.

accompanies and supports the enterprise. Indeed, the motivation for many of the communities in establishing new enterprises was more than generating profit; careful thought should be given to ways in which the enterprise can contribute to those goals without compromising its economic sustainability. The design and support of effective institutions that maximize both economic and political goals and objectives remains a significant issue for First Nations communities.

Further reading

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