

The Accidental Tribal Economic Development Model and The Rise of Tribal Institutions

Introduction: The Rise of Institutions in America

Peter Drucker, known as the father of modern business management, stated that the 19th century was the century of the great man, like Rockefeller, PJ Morgan, and Vanderbilt. But the 20th century was all about the rise of the great institutions that lived beyond a single person. The United States has thousands of these institutions include GM, Ford, GE, Boeing, Wells Fargo, etc. These institutions are one of the primary long term drivers of our country's economic growth.

Most tribes only have the Tribal government as their primary institution or in some cases, an impactful tribal college or tribal company. Tribes' lack of multiple long-lived institutions limits their economic growth potential to whatever a single tribal government and its leaders can accomplish.

The Growth of the Winnebago Tribe of Nebraska

In 1994, the Winnebago Tribe of Nebraska ("Tribe") had a modestly successful gaming operation and a few unprofitable small scale tribally owned businesses. Competition from state gaming was authorized in 1994 and the Tribe knew that their gaming would be negatively impacted.

The Tribe was under immediate pressure to diversify its economy. The Tribe had formed a company called Winnebago Industries in the 1980's, but all of the companies eventually failed for a variety of reasons that could be traced to the inherent problems of tribal governmental ownership of business operations.

The odds were stacked against the Tribe having long term economic success in 1994. However, the Winnebago Tribal community is thriving and growth and innovation are everywhere in our Tribe.

How did it happen? The truth is that it was a fortunate unplanned accident. Over the next 10 years, the Tribe created multiple quasi-independent tribal institutions which have resulted in a tribal economy that roughly emulates the mainstream economy. These unplanned series of innovations is the key to our current success and the rest of this paper is a synthesized version of our story.

Brief History of Tribal Entity Formation

In 1992, the Tribe opened a small casino in Iowa. The casino was modestly successful, but it was the first large amount of capital that the Tribe had to invest in economic and social development.

Ho-Chunk, Inc., a tribally owned and tribally chartered holding company was formed in late 1994 to develop a non-gaming economy. During the planning stages there were multiple steps taken to insulate the company from tribal politics. Also, many of issues that caused problems in the 1980's version of the company were dealt with in the organizational and planning documents. The corporate structure and its political insulation methods would eventually win the Harvard Honoring Nations award and the Innovations in Government Award.

Ho-Chunk, Inc.'s success is well documented. The company was allocated \$9 million in gaming profits before competition cut the Tribe's gaming profits by 80 percent. Company revenues have grown from \$400,000 in 1995 to over \$260 million in 2013. The company also has grown from 1 employee to over 1000

In 1996, about two years after the Tribe developed the model for Ho-Chunk, Inc., the tribe's lawyer called and asked if he could have Ho-Chunk, Inc.'s organizational documents on a disk so he "wouldn't have reinvent the wheel." The Tribal College's organizational documents were almost exact copies of the Ho-Chunk, Inc.'s. Ho-Chunk, Inc. is a quasi-independent tribally owned corporation and now so was the Tribal College.

In 1997, the Tribe had to set up a housing entity under NAHASDA¹. The Tribe had a unique housing structure that incorporated the local village government. A similar but modified quasi-independent tribal corporation was formed.

In 2000, Ho-Chunk, Inc. wanted to accelerate its social impact on the community, but it couldn't become a distraction from the main focus of growing the company. Ho-Chunk, Inc. formed the Ho-Chunk Community Development Corporation ("HCCDC"), which has raised approximately \$40 million for the community. Because HCCDC is a 501(c)(3) the Tribe does not directly own or control it. However, Ho-Chunk, Inc. provides large amounts of funding and HCCDC functions in all major aspects as a resource of the Tribe, Ho-Chunk, Inc. and the other major entities within the Tribe.

HCCDC also manages two sub-institutions in our community:

1. Winnebago Community Development Fund ("Development Fund"): The Tribe allocates 1 penny of its gas tax to Development Fund. The fund was formed in 2005 and has also won the Harvard Honoring Nations Award. The Development Fund provides matching capital for any good idea related to community social or economic development and is responsible for over 30 projects being fund in our

¹ Native American Housing Assistance and Self-Determination Act.

community. By creating an independent matching fund source that anyone could tap, the Development Fund has served to accelerate and stimulate the innovation at the other quasi-independent tribal institutions. The Development Fund is administered by an independent board of people made up from a variety of tribal and community entities.

2. Winnebago Down Payment Assistance Fund: The Tribe has allocated 1/3 of its tobacco tax and \$1.3 million of its dividends from Ho-Chunk, Inc. to provide up to \$65,000 in down payment assistance for tribal members who build a new home on the reservation. This fund is administered by the board of HCCDC.

In 2004, Ho-Chunk, Inc. formed a separate gaming company called the Winnebago Gaming Development Corporation ("WGDC") to conduct Class II gaming in Nebraska. The Tribe previously had not been allowed to do any gaming in Nebraska. In 2005, Ho-Chunk, Inc. spun off the WGDC as a separate independent entity owned by the Tribe because Ho-Chunk, Inc.'s focus was not on gaming development. However, the structure of the WGDC was almost exactly the same as Ho-Chunk, Inc.'s and the Tribe now had another quasi-independent tribally owned entity.

In 2005, Ho-Chunk, Inc. made an important internal structural change. It was becoming clear that as the company grew that corporate decision making would begin to slow down and innovation was being stifled. Ho-Chunk, Inc. changed its structure to create more freedom to operate at the subsidiary level. Managers become CEO's and were incentivized financially for growth and profitability. In effect, we created more independence at the subsidiary level² and had in effect created quasi-independent corporate entities within our own corporate structure.³

Outside Economy vs the Tribal Economy

There are a variety of ways to measure the percentage of the United States economy that is government spending, but you could safely say it is between 28 to 34 percent of the economy and is growing over time. The private sector of the U. S. economy is between 66 and 72 percent of the overall economy.

Due to the extremes limitations of the Tribal economic environment of the past and some of the inherent economic negatives of trust land, the Tribal government was the only

² It is ironic that Ho-Chunk, Inc. was formed largely because of the inefficient decision making process at the tribal council level and that as Ho-Chunk, Inc. grew its upper management became inefficient at making decisions and had in effect had become Ho-Chunk, Inc.'s "Tribal Council" for decision making purposes.

³ For perspective purposes, I believe that six of Ho-Chunk, Inc.'s subsidiaries would qualify as the largest minority owned business in Nebraska. Giving the subsidiaries a level of independence has had a significant impact on growth and innovation.

entity that had any ability to access capital. In the 1970's and 1980's the Tribe accessed various grant and loan programs and tried to develop our local economy. However, inherent problems related to government ownership resulted in repeated failures.

By 1990, the Winnebago Tribal economy was essentially all Tribal and Federal government funded. The Tribes only source of independent capital was the approximately \$180,000 a year it got from land lease funding. There was essentially no tribal private sector economy. There were only government related jobs. In essence, the Tribal and federal government controlled almost 100 percent of our local economy and the Tribe was the sole non-federal or state economic institution in our community.

The Rise of the Multi-Institution Tribe

By 1994, the Tribe had developed gaming and for the first time in its history had a significant capital resource to draw upon for development. The Tribe had capital, but individual tribal members still had no savings, no control over their assets and extremely limited access to capital. Due to the extreme poverty of the individual members, the Tribe was the only entity capable of making large scale investments to impact our community. Instead of making these investments directly, the Tribe started outsourcing these investments to variety of Tribal entities. These entities were tied to the Tribe in various ways, but were allowed a measure of independence to fulfill their various missions.

Over a period of approximately 10 years, the Tribe evolved out of its role as the sole institution in our community and now has become an entity that provides traditional governmental services, sets policy for its quasi-independent institutions, and provides necessary capital directly through its budget or indirectly through its institutions, support for grants, and reallocation of dividends to socio economic development projects or community oriented funds.

2014 Tribal Economy

In 1990, the entire tribal economy was government controlled. In 2014, the Tribe has multiple institutions fulfilling the role of the a private sector. If you were to consider the Tribe's gaming operations, Ho-Chunk, Inc., HCCDC, and the Tribal College⁴ as our equivalent of a private sector then our local tribal economy begins to look very similar to the outside economic model with our tribal government operations making up approximately 25 percent of our local tribal economy.

We also have a small but emerging entrepreneurial sector which feeds off the general economic growth of the Tribe. The Tribe has also considered spinning off other portions of its

⁴ Not counting the NAHASDA entity, which functions independently but is primarily a government function.

governmental operations such as housing, and land management into quasi-independent tribal entities.

Conclusion

The Winnebago Tribe is thriving. There are a lot of reasons and people responsible for that growth and success, but the Tribe's decision to form multiple quasi-independent institutions and capitalize them has been an absolute boom for innovation and growth. It has freed up the natural tendency of people and institutions to grow and make a meaningful impact. It has allowed our Tribal government to serve a more traditional government role and has led to a thriving local economy that emulates the outside economic system.

The Tribe did all of this without a specific plan to do so, but its success is now obvious and I believe that this model can be easily replicated by other tribes in similar situations.