



THE HARVARD PROJECT ON AMERICAN INDIAN ECONOMIC DEVELOPMENT

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HONORING NATIONS: 2000 HONOREE

Economic Development Corporation: Ho-Chunk Inc. Ho-Chunk, Inc. Winnebago Tribe of Nebraska

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Chartered under the laws of the Winnebago Tribe and wholly owned by the Tribe, Ho-Chunk, Inc. was launched in 1994 to diversify the Tribe's business interests while maintaining a separation between business and tribal government. The general purpose company promotes economic self-sufficiency and creates jobs through its actively managed enterprises, joint ventures and passive investments, which include hotels, convenience stores, websites and an order fulfillment center.

The Winnebago Reservation lies in one of the most economically depressed counties in Nebraska. Like many other Indian nations, the Winnebago Tribe does not have an adequate tax system, and historically it has had little income to fund its operations. In fact, as recently as the 1980s, the sole source of tribal income was derived from land leases, which amounted to less than \$180,000 per year. In the early 1990s, the Tribe established its WinneVegas casino on tribal trust land in Sloan, Iowa, and the tribal budget expanded significantly. Soon, however, the Iowa laws that allowed riverboat gaming near the Tribe were liberalized, posing an imminent threat to the Tribe's casino revenues. Tribal leadership saw that it would have to diversify its economy beyond gaming and into long-term self-sustaining endeavors within a period of two years or less.

Considering the Tribe's economic future, elected officials reached several critical conclusions. They understood that simply starting a tribal business – or even several businesses – would not ensure a strong economy over the long term. They wanted to create an environment in which businesses could flourish as sustainable and profitable enterprises, and where the Tribe could maximize the benefits of its sovereign immunity, federal tax immunity and civil regulatory authority. Having learned from other tribes' efforts at economic development, tribal leaders also knew that mixing business and politics needlessly puts the profits – and ultimately the viability – of enterprises at risk.

The Tribe's first step in building a sustainable and diversified economy was to incorporate these lessons into a tribal business code. In 1994, the Tribe wrote and enacted the Winnebago Business Code, which allows for the formation of wholly owned tribal corporations. It gives the Tribe the option of bestowing all privileges and immunities of the Tribe on tribally owned corporations, including sovereign immunity and all applicable tax immunities. In September, the Tribe chartered Ho-Chunk, Inc., an economic development corporation wholly owned by the Winnebago. Roughly translated, Ho-Chunk, Inc. means "The People Incorporated."

Ho-Chunk, Inc. (HCI) has a simple mission: to use the Tribe's various economic and legal advantages to develop and operate successful tribally owned businesses and to provide jobs and opportunities for tribal members. In its initial two years (1995-96), HCI was supported by casino revenue, which allowed it to develop a diversified investment and development portfolio. Freed from any requirement to pay dividends (freed, that is, from the requirement to contribute to the Tribe's general fund) in its first five years, HCI reinvested its profits and now possesses an impressive portfolio of active and passive investments both on and off the reservation. In the area of active investments, HCI developed and operates four hotels in Nebraska and Iowa, plus numerous retail grocery and convenience stores; it created HCI Distribution, a Native American tobacco and gasoline distribution company with over 25 tribes as customers; and it purchased and expanded two Indian websites. In the area of joint ventures, HCI is the majority owner of a temporary labor service provider with six offices in three states, and is also the majority owner of a telecommunications, computer and networking equipment company. As a limited partner, HCI has invested in eleven hotels, apartment complexes, a small business venture capital fund, a now publicly traded internet news and search company (Indians.com), an e-commerce company (AllNative.com), and a housing manufacturing company.

"Winnebago on a Roll to a Financial Empire," read the headline in a recent issue of the newspaper Indian Country Today (January 3, 2001). It summarizes Ho-Chunk's economic success well. HCI has enjoyed profitability over its entire life, although its growth rate and recent success are most remarkable. In 2000, the company's revenue was \$25 million, operating cash flow was \$1.5 million, and net income was \$1.2 million. And, HCI made a dividend payment to the Tribe of \$120,000 (or 10% of net income). Importantly, HCI now employs 250 employees, and nearly all of the employees in Winnebago, Nebraska are American Indian.

Another hallmark of HCI's effectiveness is that the company, through its many accomplishments, invigorates tribal pride. The tribal government and tribal members are proud, for example, that what appeared to be a cloud of doom – the collapse of gaming revenue – turned into a demonstration of flexibility and strength. Similarly, when the Omaha Tribe closed its cigarette plant, HCI lost its main and original supplier of cigarettes. Because HCI was able to diversify quickly into other brands of Indian-made cigarettes, however, its distribution company, smoke shops and convenience stores hardly suffered. The rapid development of Indians.com and AllNative.Com generated a flurry of press attention. The community can also be proud of the innovative use HCI has made of tribal sovereignty. By engaging in gasoline wholesaling and adding value on the reservation to motor fuels and Indian-made cigarettes, the Tribe retains its inherent tax-setting power.

A primary factor in Ho-Chunk, Inc.'s success is the Tribe's conscious decision to separate business from politics. Too often in Indian Country, tribally owned businesses fall prey to political favoritism. Elected officials tend to meddle in day-to-day operations, and governmental red tape threatens efficiency and profitability. All of this has been minimized, and indeed, largely avoided at Ho-Chunk, Inc. The founding document of the corporation minces no words: "Ho-Chunk, Inc. was established so that tribal business operations would be free from political influence and outside the bureaucratic process of the government."

HCI's five-member Board of Directors (two of whom are Tribal Council members) acts independently of the Council to select Ho-Chunk, Inc.'s Chief Executive Officer, who oversees day-to-day management and makes all major strategic decisions for the Corporation. The Board is also responsible for providing the Tribal Council with an annual

report, audited financial statements and an annual development plan. For its part, the Tribal Council appoints Board members, formulates the long-term development plan of the Corporation, and approves annual operating plans. The Tribal Council understands that they need to protect HCI's autonomy to ensure its success. Therefore, the Council defers to the CEO and Board, allowing them to make decisions based upon economic prudence—not on the basis of minimizing political risk. This separation of business from politics, or division of labor, frees Tribal Council members to focus on questions of governance and enables the business experts at HCI to focus on maximizing the profitability of the Corporation.

The Council's hands-off approach results not just from institutionalizing its relationship with HCI, but also from careful cultivation of the relationship by HCI and the Board. Newly elected Council members receive a daylong tour of HCI operations and an introduction to the by-laws, plans and financial reporting. In addition, the Council and Board practice deliberate communication that keeps the Council informed of current developments in the Corporation while minimizing the amount of pressure the Council can exert on the CEO. It should be noted that the arrangement neither gives HCI a "blank check" to do whatever it wants, nor elevates the Board to an equal position with the Council. The Corporation is tribally owned and the Council has ultimate authority over its assets and strategy. In other words, the Council has every legal right to intervene in the Corporation if it finds reason to do so.

For Indian nations considering the creation of economic development corporations, Ho-Chunk, Inc. is also instructive in many other ways. For example, HCI chose to pursue what it calls an "outside-in" approach to business development: it took advantage of opportunities where the economic conditions were the most favorable, regardless of whether they were on the reservation or not. This approach was based upon the assumption, at least initially, that HCI's chances of success were much higher in off-reservation, metropolitan areas. Before HCI was formed, it was common for reservation-based businesses to yield little or no investment return. Lacking appropriate guidance or market access, for example, they frequently faltered or failed. However, once HCI created a stable income stream from its off-reservation investments (which include investments in Oregon, Colorado, Minnesota, Utah, Kansas, Oklahoma, Wisconsin, Texas and New Jersey), it was able to leverage its existing businesses to create solid on-reservation development. In other words, the company's off-reservation experience gave it the expertise and resources to better guide on-reservation business concerns. Needless to say, not only has the "outside-in" approach placed HCI in a position of strength, but it has paid off: Today, the majority of HCI's development is reservation-based, and most of its off-reservation development directly or indirectly creates employment on the reservation.

Another ingredient of HCI's success is that it started small. HCI avoided debt-based growth, which would have allowed it to move quickly into bigger business endeavors. The strategy both minimized risk to the Tribe and meant that HCI could borrow against its assets in the future if the Tribe were to fall on hard times. In addition, this self-constrained capital approach meant that the managerial staff could grow with the Corporation's success. In fact, HCI made a strategic decision to begin its development activities in the franchise business (hotels) so that it could develop managerial talent under the tutelage of an experienced franchiser and eventually move to more sophisticated business activities. This is starting to take place as HCI has begun to exit some of its hotel investments and focus on its distribution, internet, technology and retail businesses. This "learn by doing" approach has resulted in better business managers and, again, enables the Corporation to build off its successes.

Finally, Ho-Chunk, Inc.'s investments complement each other. Most of its companies are vertically integrated; that is, they sell each other intermediate goods and services in a

production chain. Its tobacco and gasoline distribution company sells tobacco products to AllNative.com, the Smoke Signals cigarette outlet, and the Heritage convenience stores, and it also sells gasoline to the Heritage stores. As a result, each time HCI expands the number of its convenience stores, HCI Distribution gains additional tobacco and gasoline customers. Generally speaking, vertical integration is not always profitable, yet HCI has identified where the strategy of complementary investing has long-term economic advantages.

The ultimate objective of Ho-Chunk, Inc. is to make the Winnebago Tribe self-sufficient and to provide job opportunities for tribal members. In its six short years of existence the company is making headway on both counts. As tribal leaders throughout Indian Country know, economic diversification and sustainable tribal enterprise development are as difficult as they are necessary. Ho-Chunk, Inc. is a shining example of an economic development corporation that others can learn from and be inspired by.

Lessons:

- Successful economic development requires a firm commitment to separating business from politics, one that is not just enshrined in governing documents but is cultivated and reinforced in ongoing relationships and processes.
- While employment of reservation members is a worthwhile goal, it makes sense to focus first on profitability. In shifting focus, however, the pursuit of short-term gains should not come at the expense of sustained profitability.
- Business success breeds additional success. There are benefits to starting small and building managerial talent.

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