

Indigenous Business Toolkit Project

Separation of Politics and Business

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Summary

The separation of business and politics is one of the most important governance challenges faced by Indigenous communities wishing to engage in economic development. Research by the Harvard Project on American Indian Economic Development has shown that the ability to create this separation is vital to successful economic development.

There are many reasons why it is advantageous to separate political decisions – i.e., those made by political leaders (e.g., chief and council) – from business decisions – i.e., those made by entities such as economic development corporations. At the core of these reasons is the need for leaders to focus on what they do best and the need to support nation-building with the development of effective institutions that generate trust in the ability of the Indigenous community to carry out its many tasks.

While the separation of business and politics is critical, it is also important to recognize that Indigenous businesses are creations of the community and have been given access to community assets so they can operate. There is thus an expectation that Indigenous businesses will be accountable to their community. At the same time, the community needs to understand the business needs of their entity and ensure that these are provided.



Separation of Politics and Business

One of the requirements for business success is nation building. Nation building is the process by which Indigenous nations strengthen their ability to engage in effective and culturally relevant self-government, with the goal of achieving self-determined and sustainable community development.¹

One of the five pillars of nation building is the development of effective institutions. As discussed in the nation building module, “Institutions establish the rules, practices, codes, and relationships that govern a nation. Effective institutions make the rules and rights clear, ensure the rules are followed, establish what behaviour is encouraged and discouraged, and provide people with an idea of what they can expect in their dealings with the nation. Effective institutions require that the nation can back up its authority with competent bureaucracies and fair and effective dispute resolution mechanisms.”²

Successful Indigenous business development requires that the institutions governing business activity are stable and trustworthy. Investors, partners, and employees need to know that the rules will remain the same over the life of their project; they need to trust that business decisions will be made for solid business reasons; they need to believe that hiring and promotions will be based on merit; and they need to expect that disputes will be judged fairly and impartially. If these conditions are not in place, then investors and partners will be reluctant to deal with Indigenous businesses and economic development will stall.

The phrase “separate politics and business” is a shorthand way expressing the need for strong and effective institutions. This phrase captures a host of actions, including separating the policy decisions made by political leaders (e.g., goal setting; oversight) from the operational decisions made by business and service entities (e.g., economic development corporations; health and education organizations), the creation of strong mechanisms to keep personal decisions from affecting business decisions, and the establishment of robust systems that ensure fairness and impartiality.

The Harvard Project on American Indian Economic Development has shown that the ability to create this separation translates into stronger economic success. For instance, American Indian reservations that were able to insulate business management from political decisions were more likely to be profitable and sustainable than those who were unable to do so.³

Additional Reasons to Separate Business and Politics

In addition to creating stable and trustworthy rules, and thus producing a business environment in which investors and partners are willing to participate, the separation of business and politics has other benefits.

1. Community Knowledge and Expertise: Managing an Indigenous community has grown increasingly complex. Political leaders have their hands full dealing with the many issues

that arise in the community. The separation of political and business decisions allows political leaders to focus their time and effort on what they do best, namely, to look after the needs and interests of the entire community.

2. **Business Knowledge and Expertise:** Successful business operation demands specific knowledge. The business's board of directors is responsible for hiring a CEO, offering strategic guidance, providing insight, reviewing management reports, and reporting to the shareholders. To perform these duties adequately, board members need expertise in the business field, including financial knowledge and business subject-matter expertise.
3. **The Benefits of Delegation:** Organizations function most effectively when the oversight of their work is separated from the doing of this work. This separation of roles is beneficial because it allows people to specialize in specific tasks and it creates accountability. Thus, the leaders of Indigenous communities can be more effective when they provide overall direction and delegate the execution of various activities – e.g., economic development – rather than micromanaging or carrying out the work themselves.
4. **Balancing Interests:** While there are common interests between the community and the businesses that it owns, conflicts nevertheless arise. For example, while a community would like its business operations to generate large yearly dividends, doing so may jeopardize the business' ability to make the investments necessary to grow and prosper. The separation of politics and business ensures these conflicts are acknowledged and accounted for.
5. If political leaders directly control a community's businesses (e.g., economic development corporations), there is a risk that the community will lose the protection of the corporate veil of limited liability. To maintain limited liability, political leaders can be involved in the business but cannot directly control it. In practical terms, this means political leaders can serve on the business' board of directors, but they should not be in the majority.

The Interdependence of Business and Political Activities

While the separation of business and politics is important, complete separation may not be the best approach and is often not possible. Rather, what is needed is a relationship in which each of the two groups – the community and the business – understands the important role it plays and the way in which its actions affect both itself and the other group.

Indigenous businesses owned by an Indigenous community are a creation of the community and rely on assets and resources that the community has made available. These assets can take the form of money or land, as well as the community's name, reputation, and access to business opportunities (e.g., Opportunities Agreements). Indigenous businesses, as entities of

the community and stewards of community assets, have an obligation to behave in a way that aligns with the goals of the community and to provide an account to the community on how its assets are being used. If, as is often the case, the resources were provided with the goal of receiving future benefits, Indigenous businesses have a responsibility to inform the community as to when and how this will be done.

The complete separation of business and politics has the potential to sever the obligations and accountability that are the foundation of the relationship between the community and its businesses. If business leaders can operate completely independently, they may decide to pursue activities that are contrary to the community's wishes. For instance, the business might decide to pursue wealth creation by retaining all its profits, while the community might be looking for some profit dispersal to provide community benefits (see the Economic Development Corporations module for a discussion of these two different goals).

A lack of alignment between the community and its businesses can be expected, over time, to make the business less sustainable. The viability of the business might be weakened by the community's desire to withdraw its resources. Or viability may be endangered because potential investors become wary of working with groups (community and business) that are not on the same wavelength.

Just as Indigenous businesses need to understand the needs of the communities that own them, the communities need to understand the needs of the businesses that they own. They need to have an appreciation of why a stable and trustworthy business environment is important for attracting investors and partners. And they need to recognize the needs of the business when it comes to investment funds.

Thus, Indigenous communities and their businesses need to find ways of interacting and communicating, while at the same time ensuring that the institutions – the rules – governing business activity are stable and trustworthy.

Both political leaders and businesspeople face daunting challenges. Political leaders must gain voter support, plan strategically under time constraints, and work with limited resources. They must serve the entire community and confront external threats and opportunities. They also face blame when things go wrong, even if they have limited control.

Businesspeople have different challenges – they must create products or services that people want to buy, while managing costs to remain competitive. Market competition and customer choices impact their pricing decisions, making cost control crucial. Profit preservation is essential for future growth.

While political leaders are often rewarded for spending money, businesspeople are rewarded for fiscal restraint. However, ideally both must act in a way that benefits the members of the community.

To make this relationship work, political leaders and business leaders need to understand their roles and focus on common interests. Excessive separation can lead to mistrust by the community, while too little separation often leads to poor performance and lack of investor trust.

While politically led boards can succeed in some cases, establishing a structural separation with clear roles and responsibilities for each party is almost always a better approach. This separation doesn't mean complete independence but rather a balanced relationship. It requires mutual understanding and well-defined reporting structures.

One way to achieve accountability while providing stable and fair operating rules is through a Business Charter. A Business Charter is a formal document that spells out the roles and responsibilities between the community and its economic development arm, thereby ensuring that each group clearly understands what is expected of it. An important feature of the Business Charter is that it clearly establishes the community as the owner and that the community is delegating authority to the business body. At the same time, the Charter lays out the rules that will allow the business entity to operate in a stable and trustworthy environment. For more details, see the Business Charter Module.

Resources

Bachiu, V., M.E. Fulton, and K. Jackson. 2024. Nation Building. Indigenous Business Toolkit Project. Johnson Shoyama Graduate School of Public Policy, University of Saskatchewan. <https://www.schoolofpublicpolicy.sk.ca/research-ideas/projects-and-labs/indigenous-leadership-governance-and-development-project.php>.

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NNI. 2023. Native Nations Institute. The University of Arizona. <https://nni.arizona.edu/what-native-nation-building/>

Endnotes

¹ Bachiu, Fulton, and Jackson (2024).

² Bachiu, Fulton, and Jackson (2024). See also Cornell and Kalt (1998), Jorgenson (2007), and NNI (2023).

³ Cornell and Kalt (2003), and Jorgenson (2007).

Indigenous Business Toolkit Project

The Indigenous Business Toolkit Project is designed to provide Indigenous communities and individuals with the practical tools they and their advisors can use to undertake successful economic development. Indigenous economic development is more successful when everyone – community members, community leaders, consultants, business professionals, employees, and/or potential partners – understands its many aspects.

The Toolkit provides step-by-step instructions on selected aspects of economic development based on the best practices of leaders in the field. The modules in the Toolkit cover everything from the role of economic development in nation building, to the importance of business charters, to the various legal forms that can be used to pursue economic development, to the steps needed to identify and negotiate beneficial partnerships, to the governance challenges that economic development must address.

The modules are available for free and for use by anyone. The full set of Toolkit modules can be found at: <https://www.schoolofpublicpolicy.sk.ca/research-ideas/projects-and-labs/indigenous-leadership-governance-and-development-project.php>.

The Indigenous Business Toolkit Project is part of the larger Indigenous Leadership: Governance and Development project designed to support long-term Indigenous economic development. In addition to the toolkit, the larger project involves capturing the economic development experience of Saskatchewan Indigenous communities through a series of case studies. The case studies, along with a description of the larger project, can be found at the website listed above.

Disclaimer

The information contained in this document is designed to provide an overview of a particular topic and should not replace legal and other expert advice. Groups wishing to use the concepts discussed should receive the appropriate professional advice necessary to ensure their specific goals and circumstances are considered and recognized.

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