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Small Business Incubation and Its Prospects
in Indian Country

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ABSTRACT

There are numerous strategies and programs to support small business development and improve their prospects for long-term success. Native American entrepreneurs face even greater challenges than the average business owner, including few previous mentors to draw upon, lack of access to capital, lower education levels, and focus on commercial efforts in Indian Country by tribes themselves.

To achieve wealth creation, economic development strategies on reservations must include tribal member owned small business. Business Incubators, as physical spaces, have generated some positive results for small businesses' success and industry best practices now exist. A physical location can be a valuable contributor to incubation, provided the right foundational elements, sufficient funding, and potential tenants are available.

“**Business incubation**” is put forth as a preferred community-wide strategy to maximize prospects for economic betterment in Indian country. It goes beyond a physical location to include a community approach and involve stakeholders to build the infrastructure, capital investment, education, government support, and cultural values to foster thriving small businesses. Only this collective effort provides the “incubation” necessary to give life and grow tribal member owned small businesses; fostering healthier, dynamic communities for Native American tribes and their members.

About the Company

Social Enterprise Associates is a consulting firm specializing in triple bottom line enterprises. The company offers clients business acumen, managerial experience, practical research, and affordable services. The company foster 'triple bottom line' solutions supporting entrepreneurs, their organizations, and the industries in which they operate. Specializations include New Ventures, Socially Responsible Business, Microfinance, and Non-Profit Earned Income Strategies. More information and client list is online, www.socialenterprise.net.

1. Introduction

Small businesses make up 99% of American business, and employ half of the private sector workforce. (CFED, 2004) They also hire the most workers on public assistance and with lower education, serving a key role for economic development.

In rural areas and on Native American tribal lands, entrepreneurship and small business ownership lags national averages. According to U.S. Census data, Native American entrepreneurship is on the rise. Native entrepreneurship on reservations is lower, and creates less wealth per capita, than non-tribal counterparts. Tribal member unemployment was as high as 49% in 2001, and unemployment in Indian Country is multiple times recent national figures of 5.6%. (CFED, 2004)

Over the years, results of small business support in rural areas and in Indian Country are varied. Considering this history highlights lessons learned and best practices to follow, including:

- Challenges rural and tribal settings present to entrepreneurs, business incubation, and small business development
- Important components of business incubation, and of physical business incubators
- Potential benefits of ‘business incubation’, particularly for rural and Indian communities
- Native American-specific examples of small business support and incubation

Good news

Between 1992 and 1997, the number of Native-owned businesses grew by 84% to a 197,300 and their receipts increased by 179%. In 1997, these businesses generated \$34.3bn in revenues and employed 300,000 individuals. Dun and Bradstreet shows that Native American businesses make 116% of the average sales volume and employ 123% of the average number of employees.

2. Entrepreneurship in Rural Areas and on Tribal Lands

Rural Area Challenges

The majority of Native American tribes are in rural areas in the U.S. As such, they are vulnerable to characteristics of rural economic development:

- Low population density makes it difficult to build markets and workforces
- Remoteness from transportation centers, raw materials, market activity, and financial institutions are barriers to entry and cost disadvantages
- Poor physical infrastructures, including transportation and utilities increase barriers for business
- Low education levels, skilled worker shortages, and lack of experienced managers increase entrepreneurial challenges. Existing jobs in the community – such as farming.

Barriers in Indian Country

While Native American entrepreneurship is on the rise, those on reservations still lag behind. Entrepreneurs and policy-makers report significant barriers specific to tribes:

Capital

- Few banks and limited financial services (see box)
- Money does not circulate in / leaves the reservation
- Sovereign land cannot be used for loan collateral
- Investors do not see reservation opportunities

Capital Dilemmas

86% of tribal lands do not have a bank in the community; 15% of Native Americans are 100 miles or more from a bank.

Of those financial institutions on or near reservations, only:
33% offer start-up loans
29% offer small business loans
26% offer micro business loans

Political Environment

- Inconsistent regulations and rules for business
- Property rights and land use issues
- Short-termism due to changing politics
- Over-involvement by tribal council in business issues

Education

- General education levels are low
- Few entrepreneurial examples: only 13% of Native American entrepreneurs had entrepreneur parents, versus 75% in the general population (CFED, 2004)
- Workforce can be dominated by government or a single industry, limiting opportunities
- In a recent survey of tribal members on reservations, 80% called business training “highly insufficient”

Culture / History

- Tribal histories of exclusion, repression, economic exploitation, and government subsidies
- Limited experience with formal economy
- “Crab pot” syndrome, pulling “climbers” down

Entrepreneurship & Education

Entrepreneurship graduates:

- Are three times more likely to start new businesses
- Have 27% higher annual incomes
- Own 62% more assets

3. Business Incubators

The National Business Incubation Association (NBIA) defines an incubator as “a business assistance program targeted to startup and early stage firms with the goal of improving their chances to grow into healthy, sustainable companies.” (Adkins, 2001) A business incubator is a physical entity providing small businesses with space, support services, and networks to entrepreneurs, investors, and clients.

Growth in Incubators

In 2006, NBIA reported more than 1,000 active business incubators in the U.S.: nearly double 1998 figures, and eighty-three times the 1980 figure.

Incubator Benefits

- **Cost savings:** Tenants share overhead costs, including utilities, equipment, conference rooms, and reception. Rent is at or below market.
- **Coaching:** Incubator managers and staff support tenants in areas like marketing, HR, strategy, financing, and accounting.
- **Capital access:** Incubators can develop relationships with investors, government programs, and their own pools to finance small businesses. In a recent NBIA survey, 83% of incubators provide access to seed capital, 76% assist in obtaining federal grants, 74% contribute to financial proposals, and 57% help obtain purchase-order financing. (Ragland)
- **Networking:** Sharing between entrepreneurs fosters skill development more quickly than alone.
- **Goal setting:** Most offer fixed leases (e.g. 3 years), for clients to graduate to self-sufficiency.

Industry Focus

Foodworks Culinary Center is an incubator in rural Humboldt County, CA serving only food-processing companies. The incubator’s manager focuses on the food industry, travelling to other markets to champion clients. The facility offers 15 commercial kitchen spaces. (Lyons, 2002)

Standard Services

A study of 15 rural incubators identified common client services: (Adkins, 2001)

- Business basics – planning and financial modeling
- Help accessing capital
- Tenant networking
- Services: accounting, marketing, legal, administrative
- Linkages to higher education resources
- Management training

Incubating Successes

The U.S. Small Business Administration reports less than half of start-up businesses last 5 years. NBIA reports:

- 87% incubator graduates in business
- Every 50 jobs created by incubator leads to 25 more in the community
- 84% of incubator graduates locate permanently in the community

Key Requirements

- **Sufficient working capital for the incubator:** Start-up funding is easier to find; operating capital is more difficult. Over time, self-sufficiency and independence are critical, especially in rural areas where local government might not be able to indefinitely provide support.
- **Experienced managers:** Rural managers note inexperience as a major challenge and needing a wide range of skills: business support, operations, and technology / financial literacy.
- **Good location:** Repercussions of poor site selection include high renovation costs; low access to networks/customers; and small size with insufficient income to cover overheads. (Brown, 1989)
- **Appropriate tenants:** Incubators must follow their mission to help new entities succeed. Managers should balance needs for stable, lower-risk tenants and supporting businesses that need it most.
- **Critical client screening:** Incubators should assess potential tenant managers' readiness to grow, be coached, and contribute to a community.
- **Economies of scale:** NBIA notes this challenge for rural incubators, with fewer clients and graduates, and smaller operating budgets. Some rural incubators have developed a "hub" system that serves satellites in less populous areas, or "incubator-without-walls" programs with no real estate. Others use university support to relieve resource pressures. Still other incubators reserve space for "anchor tenants" – mature businesses that don't use incubator services but provide steady rental income. (Adkins, 2001)

Well-run physical business incubators can play an important role in economic development efforts. Taken in isolation, however, results are mixed as to 'efficiency' in the use of subsidized money (both philanthropic and government), to achieve the mission of job creation and business growth. In a recent NBIA study of 15 rural incubators, six were "low performing", with few clients, graduates, or jobs created. And, few of the 15 were financially self-sufficient.

4. Business Incubation

For challenged rural communities, including many Native American reservations, incubators cannot be standalone solutions. Without good infrastructure, entrepreneurs cannot operate or sell competitively. Without access to capital, start-up activity and growth of businesses will be limited. Without a trained workforce and experienced managers, small businesses are competitively disadvantaged. And, without the government and political support to minimize barriers, initiative is stifled.

The broader concept of "incubation" seeks a collaborative approach to generate small business success. It requires an integrated economic development strategy for wealth creation. Incubation fosters an

enabling environment to increase opportunity for small businesses. This requires a community-wide effort involving businesses, support organizations, educational institutions, politicians, and financial institutions in building infrastructure, culture, education, policies, and access to capital to increase small business growth and success.

Goals of Business Incubation

The overarching goals of business incubation are:

1. **Support start-up enterprises and existing entities:** Incubation reduces risk of failure, increases longevity, and fuels growth.
2. **Raise incomes, create jobs, and generate wealth:** Supporting enterprise growth, increasing living wage employment, and fueling the local economy directly and indirectly.
3. **Encourage local wealth retention and reinvestment:** This includes keeping business activities local, such as hiring, procurement, 'buying local', and where appropriate – "buying Indian".

Key Elements of Successful Business Incubation

Business incubation involves wider community economic development. Best practices include:

1. Access to capital

Lack of capital is a major barrier to business development. Vibrant entrepreneurial communities have numerous capital sources. Incubation efforts take a multifaceted approach to develop capital:

- Educate and incentivize financial institutions; build relationships with banking professionals
- Access state and federal funding
- Educate entrepreneurs to access public money
- Develop indigenous investment schemes and sources of capital, including low-interest / low collateral loans, revolving funds, guarantees for loans, and tribal equity funds

2. Infrastructure

Good roads, transportation links, communications networks, and IT infrastructure are key underpinnings to successful incubation. This extends to the professional management of the incubation efforts. In particular, programs need sufficient salaries to attract skilled staff and clear mission statement.

3. Community buy-in

An NBIA study found low-performing incubation efforts had less community understanding of the project's importance to the local economy. (Adkins, 2001) Consistent stakeholder education and involvement is vital for community and political buy-in of the long-term process of incubation.

4. Networks, partnerships and collaboration

Incubation efforts require input and support from a range of stakeholders. This includes organizations and people in government, local business, education, large regional employers, capital providers, and community leaders. For incubation, stakeholder cooperation best benefits small businesses. Support entities draw upon their networks to connect incubated businesses with resources, suppliers, clients, etc. Best successes have regular collaboration and high levels of communication. A full continuum of care is available to small businesses to address their needs as they advancement in their development.

5. Focus & Specialization

The more specialized incubation can be, the more focused its services. Also, the deeper it can provide quality care. Not all incubation efforts take specific industry focus. But, specializations provide greater value from networks, tailored relationships, and industry knowledge.

6. Keeping “graduates” in the community

The community benefits when successful “incubated” businesses remain nearby. This can be an issue on reservations – successful enterprises might relocate off the reservation if it is too difficult or too expensive to do business there.

5. Native American Incubation Today

The rise of tribal-owned casinos has precipitated an increasing economic separation among tribes. Case studies below highlight tribal examples of small business incubation and economic development. Key factors include:

Good governance and professional business management

Tribes with higher numbers of member-owned businesses tend to exhibit separation of powers within the tribe, coupled with independent economic development organizations. There is also professional, industry experienced management leading business development efforts.

Increase in capital access

Tribal communities are developing new methods to unlock capital for Native entrepreneurs. These include peer-to-peer investment schemes, tribal-managed funds, and outreach to outside investors.

Collaboration and networking

Given many tribal communities face similar challenges, they benefit from networking entrepreneurial efforts and individuals. The greater business community is built upon social and professional networks. Tribal members need to develop these within the tribe, between tribes, and to the border communities. Tribal member owned businesses can purchase from each other, successful entrepreneurs can mentor younger entrants, and tribal governments can share best practice with one another.

Supporting tribal member-owned businesses

Historically, commercial focus on reservations has been on tribal-owned businesses. Some tribes are fostering small businesses owned by individual members. Tribes, even poorer ones, have leverage to advance such efforts. Tribal government can dedicate resources for small business development. Businesses can be supported through

Tribal Member Business Success

Karlene Hunter, an Oglala Sioux, founded Native American Natural Foods, which produces the Tanka Bar, a buffalo and cranberry energy bar made with traditional production methods. NANF is now in talks with Whole Foods.

Increasing Tribal Capital Flows

Tribal enterprise Ho-Chunk in Nebraska provides peer-to-peer equity investments into tribal businesses.

Native American Capital in Maryland is a traditional venture capital fund targeting high-growth Native businesses.

Native Networks

The National Center for Indian Enterprise Development enables networking of Native-owned businesses, and helps its 1,000 clients win government contracts.

The Native American Business Alliance pairs Native-owned businesses with Fortune 500 corporations, who have requirements to contract with minority-owned businesses.

education for tribal members, as well as the population at large, to “buy Indian”. And, tribes can apply their own Tribal Employment Rights Office (TERO), and create Indian preference and tribal member preference in employment, contracting and subcontracting.

Buying Indian

In South Dakota, a prosperous tribe with a casino ‘buys Indian’, purchasing garbage bags from a manufacturer in the Sisseton Wahpeton Sioux Tribe.

Improved legal and regulatory environments

Small businesses operate best in sound legal and regulatory environments. Good governance is universally desirable. Tribes accelerating small business development have clear bureaucracy processes, transparent operations, good customer service, and quick response time. Economic development efforts are increasingly addressed through separate legal entities independent from tribal council and operated by professional managers. Loan funds and access to capital are regular programmatic components. And, many tribes are addressing other legal constraints to business with workarounds to make collateral available for lending and even changes to their charter to be more business friendly.

Educating and energizing entrepreneurs

Given the lack of entrepreneurial success rates in Indian Country, more support is needed to nurture the next generation of entrepreneurs. Tribal colleges are responding by honing their business education efforts. Off campus, tailored training curricula, such as the 12-week “Indianpreneurship” course offered by ONABEN, convey culturally appropriate entrepreneurship instruction of both hard and soft skills.

Education for Incubation

The American Indian Entrepreneurs Case Studies and Curriculum is structured around Lakota and Salish Kootenai tribal values, including respect for others and the Earth, cooperation, generosity, and giving back. It encourages students to reconcile business practices with traditional roles. (AIHEC, 2000)

Case Study: Wind River Development Fund (WRDF)

Established: 2003 **Location:** Wyoming

Challenges: The tribe has a low culture of individual entrepreneurship beyond “home-based businesses”. The casinos, gas stations, and other companies are tribal owned and managed. Access to capital was a particular barrier to entrepreneurs, with loans limited due to collateral with “trust land”.

About: WRDF started as a Community Development Financial Institution (CDFI), providing access to capital and business plan training. In 2008, it began a broader incubation program, offering clients office services, free bookkeeping, business advisors, and a \$2,500 grant for capacity-building.

Solution:

1. Developed an “incubator without walls” pilot in 2008.
2. Developed expertise in using leasehold mortgages as collateral.

Success: 5 clients in pilot: 1) retail bead shop, 2) home-based leather shop, 3) hotel converted to elderly care facility, 4) artist and 5) horse training ranch.

Lessons:

- A separate legal entity from the tribes, operating independently
- Adequate capital and dedicated staff are imperative. The program took a long time to launch.
- Must have great care in screening and interviewing to select clients ready for this support
- Hold clients to high standards – dropped a client missing appointments
- Bring clients slowly in to fill a limited number of “slots”
- Entrepreneurs’ attitude really matters for success
- Tribal councils were “verbally supportive”, but could provide greater support

Future: WRDF is now constructing an “Entrepreneur Center”. WDRF staff mentioned they would be happy to share policies and procedures with other tribal efforts.

Case Study: Umatilla Business Service Center

Established: 1998 **Location:** Oregon

Challenges: Umatilla tribal members had a limited track record in small business due to limited members’ skills – including management and finance – and very few role models to draw upon.

About: The Business Service Center, a tribal entity incubating small businesses, was established through collaboration of Umatilla Indian Reservation, Oregon Native American Business & Entrepreneurial Network (ONABEN), and US SBA. The Center offers business training classes, individual technical assistance, a resource library, networking opportunities and help to obtain capital. A youth entrepreneurship club is sponsored at two area high schools.

Solution: The Business Service Center has dedicated staff and on-going support from the tribe, financed by tribal business operations. The tribe has made a consistent, dedicated commitment to its entrepreneurial members.

Success: Training now has a high graduation rate (over 90%). Support includes one-on-one assistance. Education is viewed as an ongoing process for all prospective and existing entrepreneurs.

Lessons:

- Access to capital was not the greatest difficulty for Umatilla entrepreneurs. Human capital posed the greatest challenge
- Success attributed to tribal commitment to the program, long standing program leadership, community trust, and one-on-one work with entrepreneurs

Future: In 2009, the Center plans to offer a management program to help strengthen and grow existing businesses. An incubator feasibility study and small business master plan will be completed. Retail space for private tribal member owned small businesses is being considered in casino expansion.

6. Conclusion

The economic development challenges on Native American reservations are extensive. A collaborative “incubation” effort, bringing together the array of stakeholders with long-term dedication to support small businesses is invaluable.

Native American owned small businesses are on the rise and a new generation of “Indianpreneurship” is well placed for a positive future. Key barriers, including capital, bureaucracy, education, and management inexperience, are countered through a community based business incubation strategy. These problems are significant, but not insurmountable. With increased awareness in Native communities to establish foundational supports, foster a team based solution, and dedicate on-going resources, such economic development initiatives generate business growth which builds wealth with more resources on the reservation to provide more vibrant communities.

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