Between Worlds - The Meaning of Success

The Meaning of Success
Financially, they've been losers, but
Native corporations aren't only about money.

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Native corporations had a way to rack up more cash: Avoid running businesses.

Most corporations created under the Alaska Native Claims Settlement Act would have made more money if they had invested in stocks and bonds instead of launching businesses, according to Jonathan Karpoff, an economist with the University of Washington in Seattle.

While stock returns averaged 11.75 percent during the last 25 years, regional Native corporations brought returns of about 3.9 percent between 1976 and 1993.

NANA shareholders and mill control room operators Clyde Baldwin, left, and Dave Kelsey monitor computer screens showing ore flow at the Red Dog Mine.

PHOTO BY MICHAEL PENN

In their first 20 years, the 12 Alaska-based regional corporations lost more than half of their original $380 million, according to economist Steve Colt of the Institute of Social and Economic Research in Anchorage. Village corporations have performed about the same.

\"When you just look at the bottom-line financial performance, the numbers speak for themselves,\" Colt said. \"And they're just not that impressive.\"

One problem with looking at the finances of Native corporations is that most studies end in 1993 and some corporations have turned around in recent years. And unlike most private companies, Native corporations provide jobs for shareholders and are involved in political and social issues, said Vic Fischer, a professor of public affairs at the Institute of Social and Economic Research. \"I would say an ANCSA corporation has a much more difficult path in life in the business world than a private corporation that is purely profit-motivated,\"

Fischer said.

Willie Hensley, who fought for Native land claims, said most economic reviews look at corporations in ways that only apply to non-Native companies, and Native corporations are not just about making money.

Take NANA Regional Corp., which intentionally kept money-losing businesses running because they of fered jobs to shareholders. The corporation's former jade business supported half a dozen families, and the Nullagvik Hotel in Kotzebue provided work to about 40 people in the summer.

\"These are the kinds of investments those economists would never make, but we're trying to bring home the promises of the settlement act,\" said Hensley, a past NANA president.

After ANCSA passed in 1971, Native corporations got off to a slow start. The state objected to some land transfers and the U.S. Bureau of Land Management wrote regulations that would have stopped others. Corporations at times had to spend money to get the land they were granted under the settlement act.

NANA's lobbying costs to obtain title to the land ran up to $250,000 and others spent even more, said John Schaeffer, former president of NANA.

\"It was a heck of an expense just to get the settlement act to work,\" he said. Many corporations didn't receive much of their land and cash until around 1980. The early years were plagued by losses in many corporations, with a financial low point coming around the mid-1980s. The state was suffering from low oil prices and a recession, which deepened the corporations' struggle.

Then, in the late 1980s came the financial savior - net operating losses, more commonly known as NOLs. Until 1986, all U.S. corporations were allowed to sell their financial losses to other companies, which used them for tax breaks. The deal made everyone happy, except the Internal Revenue Service.

In 1986, Congress passed a law allowing only Native corporations to sell their losses. The regional Native corporations reaped about half a billion dollars from NOLs by 1990, according to Colt, the Anchorage economist.

Without them, \"We would be about half the size we are today,\" said Robert Loescher, CEO of Sealaska Corp., Southeast's regional corporation.

The U.S. Treasury lost at least $1 billion and possibly as much as $1.5 billion because of NOLs sold by Native corporations - more than the original ANCSA cash settlement, Colt said.

With the huge infusions of money taken into account, four regional corporations - Arctic Slope, Doyon, CIRI and Koniag - earned respectable returns for their shareholders, according to Colt's numbers. Yet even with this financial advantage, about half of the regional corporations still performed poorly.

Fred Ambuehl gets ready to deliver fuel from Petro Star oil refinery in North Pole. Arctic Slope Regional Corporation owns both the refinery and Sourdough Fuel.

PHOTO BY BRIAN WALLACE

That's based not on dividends, but on a yardstick commonly used by economists to gauge financial health - the average return on equity, how much money the corporation has earned as a return on what it owns outright.

Without the NOL windfalls, seven of the 12 Alaska-based regional corporations would not have broken even. And all but three of those corporations - CIRI, Arctic Slope Regional Corp. and Ahtna - would have earned less than 1 percent return on equity.

It's not uncommon in U.S. businesses for returns on equity to fall within the range of 12 to 20 percent, Colt said.

\"Their economic performance has been very poor,\" said Jonathan Karpoff of the University of Washington. His numbers, which are older than Colt's, show even worse returns.

Colt said he has a strong hunch Native corporations began a business turnaround in 1992 and 1993, but he hasn't reviewed the numbers yet.

In the last decade, many Native corporations started moving from an emphasis on jobs for shareholders to making profits, so they've become stronger financially, said David Reaume, a Juneau economist.

\"Along about that period of time, they began realizing that creating jobs in state, only to go bankrupt later, was not a long-term help to their people,\" Reaume said.

One big obstacle was the lack of experience among corporate leaders. \"Here you had people coming out of the clan-of-the-cave-bear days and we had to run a doggone corporation,\" Hensley said. \"We had housewives and hunters and fishermen who all of a sudden had to make it without going to Harvard.\"

The problem is that shareholders in Native corporations can't sell their stock, said Karpoff, who studied Native corporations. In publicly held corporations, managers are held more accountable by shareholders who can sell their shares if displeased by a company's performance. Falling share prices and the threat of an outside takeover all encourage better management.

\"If you took AT&T and said nobody could trade shares for the next 20 years or 40 years, eventually you'd see AT&T performing very poorly,\" he said.

He advocates allowing shareholders in Native corporations to sell their shares, while safeguarding corporate land by putting it in trusts that would prevent it from being sold.

Shareholders of Native corporations can vote to approve the sale of stock, but no corporation has done so because of the fear that Natives would lose control of the corporations. The ongoing dilemma for corporations is that a wise financial move often conflicts with their many other social responsibilities. Because of those responsibilities, the financial bottom line is not the only measure of success for Native corporations, said Fischer, the Anchorage professor. He emphasized the importance of what corporations do for their shareholders by offering jobs and taking on social issues.

\"They don't turn their back on the people and the state,\" he said. \"Carrs can sell out to Safeway and somebody makes a hell of a lot of money in the process and that's the end. CIRI isn't going to do that.\"