

First Nations Businesses: Progress, Challenges and Opportunities

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Abstract

Australia's First Nations business sector is growing at a pace of around 4 per cent per year, fuelled by growing demand. However, many budding First Nations entrepreneurs still face substantial barriers to establishing a successful business. This article discusses the need to develop trust for effective policy environments that support First Nations businesses, and describes how ongoing challenges of access to financial, social and symbolic capital continue to test First Nations business owners. Despite this, there are opportunities for First Nations businesses in the forms of Indigenous preferential procurement policies, and First Nations-specific business development programs as well as financial products and services. It is not yet clear how effective the policy environment is in addressing access and discrimination challenges, nor how widespread the benefits are to First Nations businesses. As such, the article concludes by discussing the role of data development for accountability.

The importance of trust to growing First Nations businesses and the role of government

Trust has long been understood to be an important ingredient in a thriving business environment, especially for the success of new businesses and entrepreneurs – trust reduces the transaction costs that would otherwise limit their viability. In the absence of trust, customers, suppliers and

employees must vet the quality of new goods/ services, scrutinise the claims made by businesses without a proven track record, and/or enter complex contractual arrangements to protect themselves from possible harm. So how is trust produced and reproduced in the Australian economy and what effects does that have on First Nations people?

While Australia may be considered a ‘high-trust’ economy, it is not universally so. Trust in our economy is conditional on membership of a group that is deemed worthy of trust. This is based not only on race but also on crude indicators of trustworthiness, including well-resourced networks, past intergenerational advantages, business experience, financial and other assets, and education qualifications. The long shadow of Australia’s racist past means that many First Nations Australians are shut out of attaining these credentials and are excluded from the benefits of a high-trust economy.

A trust deficit can impact First Nations entrepreneurs in many ways, including difficulty in attracting low-cost finance, building a customer base, winning contracts or establishing links with reliable suppliers. Low trust in First Nations enterprises is further exacerbated by historical barriers to human and social capital development of individuals, such as the (still) low participation in business education and difficulty in accessing powerful business and professional networks that are often opened by family and other intergenerational social connections. As a result, many First Nations entrepreneurs and businesspeople miss out on developing long-term relationships that lead to mutual business opportunities as well as exchange of market information. Economists deem such barriers to business entry a ‘market failure’ because it limits competition, stifles innovation and leads to inefficiencies. Most critically for First Nations entrepreneurs, these inefficiencies mean that opportunities for economic development are lost.

Addressing barriers of business entry for First Nations businesses and the inefficiencies that they cause is a key task that is shared by state and federal agencies. These market barriers are most often attended to through affirmative action policies that intentionally work in favour of First Nations businesses, including preferential procurement policies, business grants and loans schemes. By giving First Nations businesses preferential access to government contracts, the hope is that it will encourage more business startups and help sustain fledgling businesses by giving them opportunities

to make connections, gather market information and develop a track record that will help build trust and reduce the cost of capital; the result being First Nations businesses can more easily scale-up their production and be more competitive and more successful over time. For established small First Nations businesses, preferential access to government contracts can provide them with an opportunity to demonstrate a capacity to deliver high-quality and reliable goods and services at a larger scale than what they are accustomed. Such an established track record can help change perceptions about Indigenous businesses and engender trust among large industry procurers that can grow the sector further. In time, the expectation is that sustained business success will build trust in the sector, which will in turn help other First Nations entrepreneurs establish businesses without necessarily attaining the ‘signals of trustworthiness’ that are often unattainable because of the legacy and systemisation of racism.

Evaluating the impacts of policy

While addressing market barriers is a key role of government, so is ensuring ‘proper evaluation’ of programs to support the sector, including preferential procurement policies. This means going beyond simply reporting numbers of contracts awarded and dollar values. As spelt out in a key recommendation of the 2021 House of Representatives Standing Committee on Indigenous Affairs report:

The National Indigenous Australians Agency (NIAA), in consultation with other agencies, considers developing a richer measurement of performance and outcomes for the Indigenous Procurement Policy (IPP) than just contract numbers and value. Consideration by the NIAA should include how IPP contracts can

help maximise Aboriginal and Torres Strait Islander employment and skills transfer.

—House of Representatives Committee on Indigenous Affairs 2021, Recommendation 1

As well as developing richer outcome measures, it is important to measure any change in business, employment and community outcomes associated with the scheme against a ‘counterfactual’ benchmark – that is, outcomes that would have occurred over time without the program. The sector’s success may have occurred anyway, even without the programs, and government efforts to link policy to any positive outcomes without benchmarking against counterfactual outcomes is misleading. In practice, because we cannot observe counterfactual outcomes, they are constructed from outcomes of ‘like’ groups who face the same pre-post policy trends but, because of differences in eligibility/access, did not participate in the program (or not to the same extent). Such robust analysis of Indigenous policy is rare:

Too often, evaluations of key Indigenous reforms have been of limited usefulness for Indigenous people and policymakers. The evidence about what works, including for whom, under what circumstances, at what cost, and why, remains scant.

—Empowered Communities 2015, p 90

Proper policy impact evaluation is also important to build trust within the broader community. Programs to grow First Nations entrepreneurship are relatively new and are now likely to be designed via a ‘partnership approach’ with leading First Nations entrepreneurs and important First Nations business sector intermediaries. However, for this to work, governments need a license from the wider community for policy experimentation, which includes acceptance that mistakes may be made

along the way. That said, the community’s tolerance for such an approach is likely to depend on the extent to which lessons are learnt from these mistakes, which can only happen in an environment of transparency and accountability that is facilitated by robust evaluation of policy.

Too often governments exclude an evaluation framework from policy design, which considerably limits the ability of robust impact evaluation. This is because it is often too difficult to collect data from a ‘like’ comparison group *after* the program is rolled out. In this setting, failure to plan for evaluation can mean resources are wasted on programs that do not work, which can erode political support for Indigenous business programs. A lack of trust from the community that the programs are working may not necessarily lead to their abandonment – but it may lead to tighter and more onerous monitoring and regulation, and less ambitious policy.

Contribution of First Nations businesses to the broader community

In the face of the entrenched legacy of Australia’s racist past, many First Nations entrepreneurs have established successful businesses and corporations that bring unique Indigenous knowledge and perspectives to our economic, social and cultural lives. The best available evidence suggests that the number of registered Indigenous businesses and corporations grew at around 4 per cent per year between 2006 and 2018 (Evans *et al* 2021). It is important to stress two points in relation to this statistic. First, this growth is from a historically low base, with First Nations entrepreneurs being under-represented in national statistics (Hunter 2015). Second, we all stand to benefit enormously by addressing the challenges of trust faced by First Nations entrepreneurs – as vehicles of self-determination, First Nations businesses and corporations provide social, cultural, environmental and economic contributions to Australian society. These benefits or ‘spillovers’ from First Nations business activity need to be understood and valued.

First Nations businesses are diverse in their business models and motivations (Evans and Williamson 2017); there are cultural businesses that provide art and tourism, knowledge-brokering businesses that

work to bring about greater educative relational knowledges and practices, and businesses that look like any other across all industry sectors in Australia. What makes these firms and this type of enterprising distinct is the unique community benefits they create. For instance, cultural businesses, through the provision of art and tourism, help preserve and share the world's oldest living culture, which enriches the lives of all Australians and helps build understanding, trust and social cohesion. Such businesses are often in remote locations where there are few other employment opportunities, which in turn helps build economic independence that is vital for self-determination.

Irrespective of where they operate, First Nations businesses are more likely than non-Indigenous businesses to hire First Nations workers (Hunter 2015). This helps overcome discrimination, which is a major barrier to employment for First Nations people (Shirodkar 2019; Biddle *et al* 2013). First Nations businesses may also provide a more culturally supportive working environment that may help in attaining sustainable and rewarding employment for Indigenous employees. To the extent that improved employment rates increase the financial autonomy, self-esteem and wellbeing of First Nations people, there are likely to be benefits for the wider community through reduced public health costs and income support payments. The more varied and geographically dispersed the sector, the greater the connections and interactions between people from First Nations and non-Indigenous cultures – which, in turn, should lead to greater trust at an individual and community level.

First Nations businesses and corporations are established for a range of purposes. When looking at Indigenous registered corporations under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006*, the most common purpose is to provide public goods (such as education, health, social and cultural services) and infrastructure in remote communities in ways that are responsive to local needs. As such, some corporations have a not-for-profit status and take on roles that would otherwise be filled by local government. In some cases, corporations act as catalysts for growing local

Indigenous businesses by: providing start-up grants and access to finance; being a major local procurer; or investing in local economic infrastructure, such as air strips, road maintenance and telecommunications. Many of these 'non-market facing' corporations also provide cultural and traditional land management services that are focused on living a life in direct connection to Country and help maintain culture and biodiversity for current and future generations of Australians.

Importance of visualising the sector

A necessary step in building trust in the sector, and in efforts of government to support it, is to make the sector visible. The contributions of First Nations businesses and corporations have seldom been mentioned in the discourse of the Australian economy. More often the focus has been on the expense of payments and services from taxpayer dollars to our First Nations people. What will it take to collectively consider the sizable contribution made by Indigenous businesses and corporations to taxpayers and society at large? First Nations businesses and corporations are some of Australia's most heterogeneous entities, with vast diversity across dimensions of location, size and industry. These businesses and corporations drive revenue, pay taxes, employ large numbers of Australians, operate business models with goods and services that are valued by the market and, most notably, show leadership through impact. So why are First Nations economic contributions unknown and not widely celebrated? What is getting in the way of understanding and supporting this growing part of our economy?

The illumination of successes and failures of First Nations businesses and corporations has been elusive to us all, as the statistical rendering of the 'sector' is a challenging project. The idea of making First Nations businesses and corporations more visible is not a new one; many players in government and Indigenous sectors have been working on this 'problem' for more than 20 years. It is a technical challenge that requires: (1) scanning of all locations, industries and sectors to identify First Nations-owned businesses and corporations; and (2) a level of verification to ensure First Nations

ownership. Verification that the business is Indigenous owned is a criterion for participation in government preferential procurement policies; in most cases, this means at least 50% ownership (see NIAA 2020). How governments verify ownership in practice is likely to vary, but lists of Indigenous business registries are commonly used. The national Indigenous Business Directory managed by Supply Nation and funded by the National Indigenous Australians Agency (NIAA) sets the standard for verification of the ownership of all businesses by: requiring the production of Confirmation of Aboriginality Documents for registration; and conducting regular audit checks to ensure majority First Nations ownership and control of the business. In many cases, the main role of registries is to promote Indigenous businesses and not necessarily to meet requirements of preferential procurement policies.

Better data are needed

To make the sector visible and to enable robust evaluation of programs to support it, we need better data. Currently, very little is known about the First Nations business sector because it is not made visible in any existing national survey or administrative data. First Nations-owned businesses are only made visible through various business registries, such as Supply Nation, the Office of the Registrar of Indigenous Corporations, Indigenous Chambers of Commerce (e.g. Kinaway) and the Industry Capability Network Limited (ICNL). Each of these registries have their own processes and ownership validation requirements for registration and are therefore unlikely to be representative of the entire sector. The decision for businesses to register on these lists is likely to be strongly associated with the benefits they perceive from registering. For example, registries like ICNL and Supply Nation that were established to promote Indigenous procurement, especially for large government projects, under-represent small startups that have limited capacity to compete for these contracts (Evans *et al* 2021). Further, many businesses may decide not to register because of fears of negative discrimination or because they cannot, or choose not, to undergo Indigenous

verification processes. Like the decision to register, the decision to have ownership verified is complex, depending on personal and family history, connections to community and sometimes a philosophical stance on being verified by state mandate. This means that any analysis of businesses on any registry or groups of registries is unlikely to be representative of all First Nations businesses and may lead to misleading characterisations of the sector.

To meet this need, we are working in partnership with the Australian Bureau of Statistics (ABS), the NIAA and business registry custodians to bring all anonymised registry data together in one dataset and integrate it with annual outcome data (back to at least 2008) from the ABS. This project – known as the *Indigenous Economic Power Project (IEPP)* – will track procurement and First Nations business outcomes for a period that spans before and after the implementation of government preferential procurement policies. The ABS outcome data will include business outcomes (including Indigenous employment, business income, measures of business viability) from the Business Longitudinal Analysis Data Environment (BLADE) and community outcomes data (health, education and financial wellbeing) from the Multi-agency Data Integration Project (MADIP). These data will be used to produce a comprehensive national picture of registered businesses and their contribution to the community each year and to conduct robust impact analysis to measure the effectiveness of affirmative action policies and how they can be tweaked to ensure all Indigenous businesses share in their benefits. The latter is part of an Australian Research Council Linkage project *Evaluating the Impact of Indigenous Preferential Procurement Programs* in partnership with the NIAA, the ABS, FMG, the Minerals Council of Australia and Procurement Australasia.

As important as comprehensive registry data are for identifying businesses for potential government support, there are likely to be many First Nations businesses that do not make themselves visible for various reasons, as discussed above. Ideally, the use of *IEPP* for policy analysis will be supported through the development of a comprehensive database of *all* Indigenous-owned (but not necessarily verified)

businesses. Although such a database should not be used to represent the sector, it could be used in tandem with registry data to identify what proportion of the sector chooses to remain invisible, the types of businesses that remain invisible and their motivations for remaining invisible. This knowledge will be important for designing policy to support the sector more widely and equitably, without compromising the integrity of that support. Despite the enormous potential of the *IEPP* to make the sector and its contribution visible and to understand and improve government policies,

there is a need for stronger cooperation between government, First Nations business leaders and researchers to bring it to fruition. Such cooperation is difficult in the shadow of our racist past that has excluded First Nations people from power with dire policy consequences mostly unacknowledged. The hope is that the promise of mutual benefits for the First Nations business sector, the First Nations communities they serve and wider Australia society will be enough to convince leaders to work together to build the necessary data to make the sector – and its hidden benefits – visible. ✎

Endnotes

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