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Chapter 6

Developing Market Economies: The Aboriginal Case in Northwest British Columbia

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Abstract

In this paper, we summarize Transaction Cognition Theory and the key propositions that flow from it and apply to the society level of analysis, as the theory bears on economic development – specifically, the creation of high performance economies among the native peoples in northwest British Columbia. Based on the concepts and analysis presented in this paper, we conclude that two contingencies will influence the likely success of economic development initiatives in northwest B.C. First, the successful negotiation of on-reserve property rights; and second, the acquisition by economic decision makers (leaders, venturers, and even the general members of on- and off-reserve native society) of the levels of planning, promise, and competition entrepreneurial cognitions that are sufficient for their roles in economic development.

Introduction

Understanding how to navigate from hierarchical to market-based economies has been, and remains, an important question for scholars interested in the privatization and entrepreneurial transformation of command economies (Mitchell 1992). While working on this problem in the Chinese context, we had the privilege of receiving a delegation of native leaders from northwest British Columbia. They were struck by the parallels between the economic development problems experienced during the Chinese transition to a market-based economy, and those presently confronting native communities.

In mainland China, the assumptions of state-sponsored socialism resulted in collectivization of production, with a command economic structure set in place to centrally plan and manage it. In northwest B.C.,

these native leaders observed that the provisions of the federal Indian Act have, through the reserve system, also resulted in elements of collectivization. Through the band council system and the regulations of Indian and Northern Affairs Canada (INAC), a command economic structure in which the assumptions of central planning and management have a strong influence is also in place. Both situations urgently require guidelines for developing high performance economies.

The command to market issues that presently confront aboriginal populations on-reserve in northwest (and on occasion elsewhere in) B.C. are explored in this paper. Herein we will we summarize Transaction Cognition Theory[1] and the key propositions that flow from it and apply to the society level of analysis, as it bears upon economic development – the creation of high performance economies. Native focus groups that we have conducted in northwest B.C. consider a high performance economy – and by extension, a working definition of economic development in the First Nations community – to mean "the processes that lead to prosperity and cultural well-being." As we theoretically develop and justify three key propositions, we provide an example of how both positive and negative outcomes in native economic circumstances can be explained by Transaction Cognition Theory. This paper concludes with discussion and observations that arise from the analysis.

Transaction Cognition Entrepreneurship Theory

Transaction cognitions consist of specialized mental models or scripts (Arthur, 1994a; Mitchell, Smith, Seawright, and Morse 2000; Neisser 1967; Read 1987) that guide individuals' responses to three principal sources of market imperfection: bounded rationality (BR), opportunism

[1] Although related, Transaction Cognition Theory should not be confused with, and is distinct from, Transaction Cost Economic Theory. The principles of Transaction Cost Economic Theory are utilized in Transaction Cognition Theory to help to identify and rigorously derive the thinking patterns (cognitions) that enable transacting at various levels of analysis.

[2] The terms bounded rationality, opportunism, and specificity have particular definitions within transaction cost economics (Williamson, 1985) that are adopted and utilized within Transaction Cognition Theory as follows:
- Bounded Rationality: The condition that leads to behavior that is intendedly rational, but limitedly so.
- Opportunism: Self-interest seeking with guile.
- Specificity: Non-redeployability (once time has been expended in the creation of a work, it is impossible to redeploy that same productive time for a different work).

Table 1: Some Attributes of the Contracting Process
(Williamson 1985: 31)

Behavioral Assumption			
Bounded Rationality	Opportunism	Asset Specificity	Implied Contracting Process
0	+	+	Planning
+	0	+	Promise
+	+	0	Competition
+	+	+	Governance

0 = absence, + = presence

(O), and specificity (S) (Williamson 1985).[2] Williamson argues that the contracting processes in the transacting world include: (1) planning, (2) promise, (3) competition, and (4) governance/hierarchy, depending (respectively in each instance) on the presence/absence combination of the foregoing market attributes (BR, O, and S), as shown in Table 1.

This framework suggests at least three sets of attribute/process relationships: (1) between bounded rationality and planning, (2) between opportunism and promise, and (3) between specificity and competition. Interestingly, although these relationships are inherently bidirectional, Williamson utilizes only one direction in his analysis of hierarchies vs. markets. He suggests, for example, that the absence of bounded rationality in the presence of asset specificity and opportunism implies planning. However, he underutilizes the complementary idea that planning should also reduce bounded rationality in situations characterized by those same two conditions (Simon 1979) (because better or worse planning affects the level of transaction costs that arise from bounded rationality). The same conclusion follows for market imperfections created by opportunism and asset specificity. Opportunism is expected to be affected by promise processes (e.g,. trust creation (Barney and Hansen 1994) among stakeholders (Agle, Mitchell, and Sonnenfeld 1999; Mitchell, Agle, and Wood 1997)), and specificity by competition processes (e.g. the adoption of a low-cost generic strategy (Porter 1985)).

Thus, the cognitions that individuals possess about planning, promise, and competition are expected to impact transaction costs, and therefore the success of transacting, where:

- planning is defined as the mental models that assist in developing analytical structure to solve previously unstructured market problems;

- promise is defined as mental models that help in promoting trustworthiness in economic relationships with, for example, stakeholders (Agle, Mitchell, and Sonnenfeld 1999; Mitchell, Agle, and Wood 1997); and
- competition is defined as mental models that can create sustainable competitive advantage, and are expected to impact transaction costs, and therefore the success of transacting.

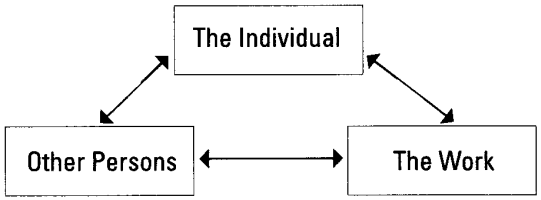
Transaction costs are the costs of running the economic system. They are to economic systems what friction is to physical systems (Arrow 1969; Williamson 1985). Entrepreneurial opportunity (Kirzner 1982) occurs when entrepreneurs utilize planning, promise and competition cognitions to enact transactions that would otherwise fail due to the transaction costs. Entrepreneurship may, in this respect, be conceptualized as an essentially cognitive process (Mitchell, Smith, Seawright, and Morse 2000).

By definition, a transaction occurs when an individual creates a work (some product or service) and then enters into an exchange relationship with other persons for the sale or acceptance of that work (Gardner 1993) as illustrated in Figure 1. Transaction cognitions are the mental models or scripts (Arthur 1994a; Read 1987) that are utilized in this process. Thus, where the objective of entrepreneurship is to discover and enact successful transactions (Kirzner 1982), the job of the entrepreneur is to use market imperfections to advantage. This reasoning produces the Transaction Cognition Theory definition of entrepreneurship.

Under this definition, entrepreneurship is: the use of transaction cognitions (mental models/scripts about planning, promise, and competition) to organize exchange relationships (among the individual, the work, and other persons) that utilize the sources of market imperfections (bounded rationality, opportunism, and specificity) to create value (Arthur 1994b; Csikszentmihalyi 1988; Gardner 1993; Mitchell 1999; Williamson 1985). This is illustrated in Figure 2. The linkage between this conceptualization of entrepreneurship and native economic development can then be seen through the application of Transaction Cognition Theory at the society level of analysis.

The literature suggests that multi-level constructs occur in theories that can be generalized across levels (Rousseau 1985). As such, critical uniformities are required. In the case of Transaction Cognition Theory, three multiple-level sets of constructs represent the individual (as creating entity), others, and the work at multiple levels. As well, three

Figure 1: The Elements of a Basic Transaction



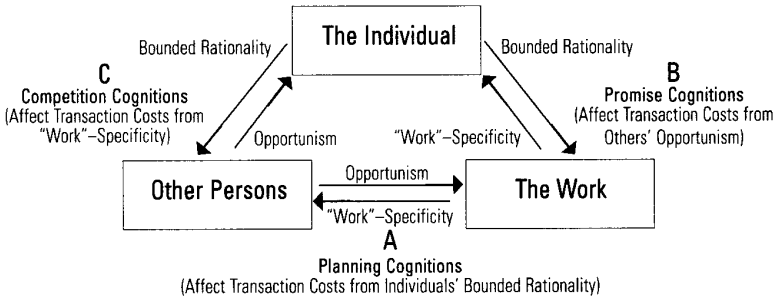
Based on Gardner (1993)

multiple-level sets of cognitions, planning, promise, and competition, suggest specific cognition constructs at corresponding levels.

As illustrated in Figure 3, at the society level of analysis, it is Gross Domestic Product (GDP) (as the creating entity) that, according to the values system of a society (the common attributes of other persons that shape the physical and behavioural artifacts of that society (Schein 1985)), produces the standard of living (Mitchell 2001). Based on prior work (Mitchell 1992), one set of planning, promise, and competition cognitions that operates at the society level of analysis includes productivity cognitions (planning), trust cognitions (promise), and value cognitions (competition).

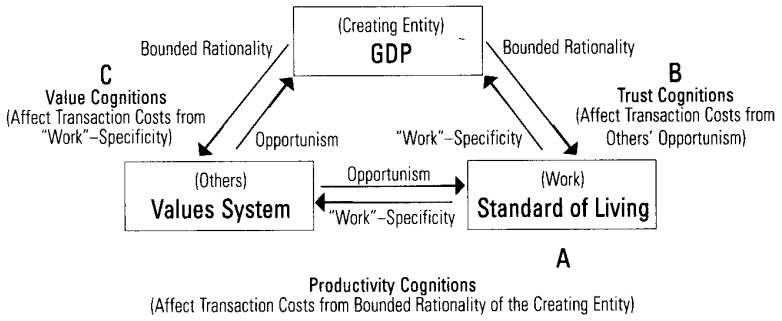
Thus, the general transaction cognition model shown in Figure 2 can be specialized to represent these relationships at the society level of analysis as illustrated in Figure 3. In the next section, the justification for propositions that relate the elements shown in Figure 3 is presented. Cases from the native experience in northwest B.C. are also presented

Figure 2. The Transaction Cognition Theory Model at the Individual Level of Analysis



Based on Gardner (1993); Williamson (1985)

Figure 3: The Transaction Cognition Theory Model at the Society Level of Analysis



Based on Gardner (1993); Williamson (1985)

to illustrate the assertions made. The main objective of this analysis is to demonstrate how, at the society level of analysis, the development and fostering of specialized cognitions can, in fact, result in society-level economic development.

Propositions

With help from many individuals who live and/or work in northwest B.C. and are well-informed on native affairs due to their own aboriginal heritage and experiences or extensive work with the native community, several illustrations of the propositions that follow have been identified and are reported in this paper. These cases demonstrate how the theory explains both positive (+) and adverse (-) results of economic decision-making relative to the principles proposed.

Planning Cognitions

Transaction Cognition Theory suggests that economic frictions (transaction costs) are responsible for the grouping of transactions into the transaction bundles (firms, industries, economies, etc.) that result in the multiple levels of analysis previously discussed. Transaction cost economic theory suggests that the grouping process that creates organizational hierarchies is one of "discriminating alignment," and can occur "not only at the level of transactions but also at the level of nation-states" (Williamson 1996b, 332). Once such a transaction cost economizing grouping, or "hierarchy," exists, then an additional efficiency-creating process (coordinative alignment) occurs. This process

aids the individuals who are bound together within that common transacting group (the individuals within a society) to economize upon transaction costs within that entity (Williamson 1991).

Unfortunately, it has been noted in earlier work that within the command economic systems studied to date, people's attention to the elimination of coordinative transaction costs is limited. As noted by one commentator in connection with the former Soviet Union,

> . . . the problem with Marx's work stems from his political beliefs and not his theoretical system. . . His political sympathies led him to focus on the macro-structures (in the economy) and largely to ignore micro-structures (Ritzer 1979, 35).

One danger of collectivization, then, is the "bureaucratization of economic life" (Lange 1938, 109), which leads to waste and inefficiency. For example, the management practices characteristic of the command economic system that the Soviets established and enforced in Hungary, resulted in waste and inefficiency characterized by ". . . excessive bargaining between supervisors and subordinates, pervasive distrust, the delegitimation of managers, and responsibility avoidance" (Pearce 1991, 75). Further, the fear of expropriation bred during an "era of confiscations" (Kornai 1986, 1705) created incentives for craftsmen, shopkeepers, and small business entrepreneurs to focus on "myopic profit maximization" (1986, 1706). As a result, a set of first order economizing costs (Williamson 1991) due to waste of all types operates within command economic systems to sabotage economic performance.

We can therefore expect to see, as a part of economic life under command economic assumptions, a set of transactional practices that increases the costs of running the economic system *within hierarchies* and exhibits no related benefit, either within the hierarchy, or at the societal level. Thus, when considering what might be done to facilitate economic development through the enhancement of market economies in northwest B.C. native society, attention to first order economizing of a coordinative nature is essential.

An additional implication of coordinative economizing is that *reversals* of the fundamental transformation (Williamson 1985) are also possible. Thus, assets maladaptively internalized (wasted in employment under hierarchy) might be returned to market governance. The possibility of fundamental transformation reversal suggests that tuning or adjustment type activities might be possible for economic agents which, through the elimination of waste, endow society with the redeployment benefit of underutilized assets, and reduce the likelihood that thus

unburdened firms will fail. Hence, in the aboriginal case in northwest B.C., the following is proposed:

Planning Cognitions Proposition:
Economic development is associated with the planning cognitions that foster productivity.

Thus, it is expected that, where action is taken by economic actors to eliminate waste or inefficiency within existing economic structures (e.g., firms, society), privatization (the move from hierarchy to market) should be stimulated through reversals of the fundamental transformation while the prospect of firm failure is attenuated and material well-being is enhanced. Where attention is focused instead on bargaining over the allocation of resources within a command economic system, a lower GDP is to be expected, resulting in a lower standard of living. Both positive and negative illustrations of this proposition follow.

(+) The case of Northern Native Broadcasting Corporation (NNBC). The case of NNBC illustrates the veracity of the aforementioned planning principle. Several years ago there was a change in management at NNBC. Prior to the change, NNBC was operated much like a government department (depending entirely on a yearly subsidy, and operating with few planning cognitions: few, if any, financial targets and little accountability). Under the new management, waste and inefficiency were steadily reduced as effective planning, supported by a coordinated human resource approach, produced financial and market share targets that have been met or exceeded. As a result, the broadcast quality and innovation at NNBC has risen; the advertising revenues have increased dramatically; and the viability of NNBC as a fully capable market participant has been enhanced. As predicted by theory, these reductions in waste and inefficiency have stimulated the potential for privatization (the move from hierarchy to market), while the prospect of firm failure has been attenuated, and the material well-being of the organization and its stakeholders has been enhanced.

(–) The case of Nisga'a halibut licenses. The case of a halibut fishing license owned by the Nisga'a Nation Corporation illustrates the deleterious effects of command economic assumptions, and the resulting distrust, delegitimization of community members, and responsibility avoidance that ensue in an oversocialized command economic system. In this case, an entity controlled by four band councils (the Nisga'a Nation Corporation) held a valuable (five-figure value) halibut fishing license that it decided to put up for sale. When a member of the Nisga'a

nation came forward with an offer to buy, it created an internal debate. One key sentiment, which might be expressed as: "we don't want one Nisga'a individual to get ahead of another," resulted in the matter being shelved for at least a year. According to the individual recounting this incident, the situation created a lot of animosity within the community. Eventually, the license was sold through a broker to a non-Nisga'a native corporation. This sale incurred the additional expense of a broker's fee, and a loss in potential prosperity: the revenue-generating and culture-preserving capacity of the community.

According to the respondent, "there are plenty of individuals who have the potential to create jobs; but on-reserve there is a crab syndrome where others don't want to see their fellow members of society get ahead" (Anonymous interview April, 2000). The preference for tolerating waste and inefficiency within a society at the expense of the development of individuals' economic independence demonstrates a planning disability within the reserve system. In such circumstances, it appears that political considerations supersede economic ones. In this case, the political considerations fostered waste and lost opportunity for a member of the society. This suggests the decoupling of political and economic micro decision making within a market, since allowing transaction-by-transaction decision making to fall within the political arena (the command planning model) results in transaction costs from waste and inefficiency.

Where players in the economic arena use political means to influence the rules of the game, i.e., influence governments to create and sustain market imperfections that give profit to these powerful players *whether or not* they add the value of discovery to the system (Etzioni 1988), all members of that society lose. Outside the reserve system, governments that regulate market system economies act to preserve system integrity by removing the unproductive market imperfections that restrain trade. Actions such as the enactment and enforcement of antitrust laws are examples of approaches that are geared to leveling the playing field.

Therefore, to attain the benefits envisioned by adherence to the Planning Cognitions Proposition, Transaction Cognition Theory suggests that it is necessary for the plans within the governance of native society to abjure the involvement of political entities (such as band councils) in running businesses. The job of government should be to keep the game fair and to resist the temptation to misuse governance authority to obtain a share of game winnings, rather than to play within the game.

Promise Cognitions

Transaction Cognition Theory also suggests that promise cognitions are necessary for economic development a society. This is because one of the market imperfection-creating attributes of humanity is opportunism: self-interest seeking with guile (Williamson, 1985: 30). Opportunism fosters cognitions that produce social friction, which increases transaction costs due to moral hazard and distrust. Cognitions that reduce social friction through the promotion of trust can therefore be very helpful in creating a society with high levels of economic development, because they increase the promise that the expected benefits will be delivered.

Fundamental to a discussion of the freedom to make and keep economic promises, is the existence of property rights. John Adams, one of the framers of the U.S. Constitution, is reputed to have asserted that "property must be secured, or liberty cannot exist." Property rights represent commonly agreed upon standards that convey the rights of ownership. When they are clear and well defined, trust in transacting is enhanced.

Transaction cost economics usually assumes that property rights in a society are well defined and easy to enforce (Williamson 1975; Williamson 1985). However, for native individuals who live on-reserve, individual land ownership, a key property right, does not exist. Under section 20 of the Indian Act, a certificate of possession (CP), the closest thing to a right to own real property, may only be granted with the consent of: (1) the Minister of Indian and Northern Affairs (INAC) representing the Queen as the holder of title, and (2) the band council governing the reserve in question. This provision directly impairs the capability of individuals in on-reserve society to enter into credible economic promise relationships.

This missing capability to promise has pervasive implications for economic development. Lack of the right to own land on-reserve leads to a situation where the transactions that depend on the right to own real property (such as the financing of business premises or individual homes) fail due to definition and enforcement problems. Therefore, it seems useful to consider the application of the transaction cognition model to circumstances where property rights are neither well defined nor supported by a societal tradition of credible commitment to their enforcement (Williamson 1991).

Transaction cost economics suggests that under a weak property rights regime the fundamental transformation of market to hierarchy

is induced at a lower level of asset specificity (i.e., markets fail), since inducements exist for transactions to be integrated (forward, backward, laterally) to mitigate expropriation hazards (Teece 1986). Alternatively, where governance structures are not readily alterable to safeguard transacting, it should be expected that "farsighted agents . . . recognize that their market development efforts will be expropriated . . . unless they are able to develop ties . . . which preclude the [expropriation] scenario from materializing" (Williamson 1991, 84). In essence, transacting agents must take a hostage (invoke a force-based promise) to raise the level of asset specificity for which a safeguard is mandated. It should be emphasized that the cost of such safeguards is an increase in transaction costs; the friction in running the economy goes *up*, contributing to dislocations, chaos, and other such drains on the societal well being that hinder economic development. In the aboriginal case in northwest B.C., such increased friction implies the following proposition:

Promise Cognitions Proposition:
Economic development is associated with the promise cognitions that foster trust by strengthening property rights.

Thus, to the extent that property rights are strengthened, opportunism-based transaction costs such as economic hostage-taking, the dislocation of productive economic resources, and the chaos within society are expected to decrease. To the extent that on-reserve property rights remain weak, political processes are expected to dominate in place of economic processes (Poelzer 1998), because of the need to reconcile uncertainties about control before trust can be expected to flourish. In the following cases, the efficacy of this proposition is demonstrated.

(+) The Sechelt Band negotiates its own real property rights. As noted above, in Canada, Her Majesty the Queen, represented by the supervising federal cabinet minister in the government party, has title to all reserve lands. Under section 91(24) of the Indian Act, federal jurisdiction is intended to preserve Indian reserves intact. Over the years, however, the Sechelt Band in British Columbia, being led by particularly farsighted individuals, has moved out of the traditional reserve system into a system of communal fee simple title for its former reserve lands.

In 1977, Sechelt completed the delegation of all available powers under the Indian Act through negotiations with the federal government. This gave it the right to exercise all the ministerial powers with respect to the lands on its 33 reserves. It went on to secure full self-government in 1986 as a result of Canada's Sechelt Indian Band Self-Government

Act. Thus, when, for example, prior to self-government, INAC refused (under section 53(1) of the Indian Act) to allow Sechelt to give an option on 300 acres of gravel land, the band gave the option anyway and, after self-government was affirmed, was able to honor the lease. Thus, Sechelt property rights under self-government (even though held communally and not individually) facilitated economic development.

(–) The case of building on-reserve. As noted above, by virtue of the provisions of section 20 no CP can be obtained, except by permission of the minister and the band council. Once a CP has been obtained, the courts have held that it may be transferred[3] with the approval of the minister as a part of section 91(24) (federal jurisdiction) lands. However, because of the lack of fee simple title, the band council – being susceptible to the political influence that inures in this governance process – can still increase the transaction costs, and cause transactions to fail. In several instances described to us by respondents, band councils have invoked mechanisms such as zoning, to frustrate the intentions of a band member in the transfer of a valid CP.

Further, according to the experience of one of the persons we interviewed during our field work, native individuals whose economic earning power easily qualified them for home mortgages when buying a house off-reserve could not qualify for a home loan to build a house on-reserve because the bank was unable to collateralize the loan with the home built due to the lack of fee simple title.

In these situations, the lack of clear and clearly enforceable property rights severely compromises transacting both on- and off-reserve. As with the case of planning cognitions, and as predicted, on-reserve promise cognitions tend to be highly developed, but are utilized primarily for political as opposed to economic purposes.

Competition Cognitions

Competition cognitions comprise the third set of mental models specified by Transaction Cognition Theory essential to economic development. As defined previously, competition cognitions are the mental models that create sustainable competitive advantage in market-based transacting. Competition cognitions are expected to impact the efficiency of transacting, and therefore the level of economic development, through their ability to help individuals within a society to align expectations about the work produced with the most effective market mechanisms.

[3] 1984 decision by the Supreme Court of Canada, opinion by Mr. Justice Pratt.

As also previously mentioned, transaction costs are considered to be the "costs of running the economic system" (Arrow 1969, 48), and may be viewed as "the economic equivalent of friction in physical systems" (Williamson 1985, 19). Transaction costs hinge particularly on the level of specificity related to the work component of a transaction. These friction/transaction costs are minimized by autonomous adaptations: the adjustments in human transacting procedures effected by strategic choices that influence the operation of the price mechanism and are made automatically as individuals transact with others in a market economy. Transaction cost economists suggest that high specificity implies high transaction costs, thereby implying a hierarchy (Williamson 1975). Correspondingly, low asset specificity implies low transaction costs, thereby implying market governance.

Where, due to the political reality (such as the existence and enforcement of the Indian Act), command-type decision-making is utilized (e.g., on-reserve governance), two types of maladaptations (conditions that result in higher than necessary specificity and therefore transaction costs) can occur as a result of the impediments to the operation of the price mechanism that command decisions cause. These errors prevent the efficient governance of transactions, as illustrated in Figure 4.

Where low specificity, as an attribute of transactions, implies market governance due to autonomous economizing, attempts to govern such transactions within a hierarchy (e.g., by exercising INAC, or band council control or influence) constitute the Type I, or "collectivization" error illustrated in Figure 4. To compare this to the case of the command economy of the former Soviet Union, the Type I collectivization error appears primarily to be the kind of error committed during the era of state-sponsored socialism, causing failures in large centralized units of production (e.g., agricultural communes that failed to feed the U.S.S.R. on the richest farmland in the world). In the case of the on-reserve economy, we can expect to see the Type I error in situations where business ventures have insufficient market support but are still attempted on-reserve.

Conversely, where a high level of site, resource, or physical specificity would normally, under autonomous economizing, lead to hierarchy as the most efficient form of governance, attempts to govern transactions related to these assets via market mechanisms (i.e., forced marketization) are also predicted to be problematic. In this instance, a Type II, or "privatization" error could also be made. The key to efficiency, then, appears to be the unencumbered autonomous operation of the market

Figure 4: Predicted Results of Interventions on Market Alignment, as Influenced by Level of Specificity

Command Economy Intervention		Level of Specificity: LOW SPECIFICITY	Level of Specificity: HIGH SPECIFICITY
	HIERARCHY ATTEMPTED	1 Type I Collectivization Error (hierarchy attempted where a market should be)	3 Efficiency: (Hierarchy alignment: autonomous economizing)
	MARKET ATTEMPTED	2 Efficiency: (Market alignment: autonomous economizing)	4 Type II Privatization Error (market attempted where a hierarchy should be)

mechanism. According to Transaction Cognition Theory, the key to the unencumbered autonomous operation of the market mechanism is that the market actors possess adequate competition cognitions; otherwise, maladaptations occur. Accordingly, in the aboriginal case in northwest B.C., the following proposition appears likely:

Competition Cognitions Proposition:
Economic development is associated with the competition cognitions that foster value creation through market alignment.

Thus, to the extent that competition cognitions enable a smoothly functioning marketplace, low specificity transactions should be managed with minimum friction, thus avoiding "Type I collectivization errors." And, to the extent that physical site or resource specificity exists as a consequence of a preexisting command economic structure, the existence of competition cognitions is expected to ensure that transaction costs are minimized with hierarchies left intact, thus avoiding "Type II privatization errors." In the following four cases, illustrations of positive and negative examples that have occurred in both low and high specificity situations are provided in the order specified in Figure 4.

Low Specificity Examples

(–) Box 1 – Type I (Collectivization) Error: On-reserve business failures in the Nass River Valley. For the past several years both a gas station and a supply store have operated on-reserve in the Nass River Valley of northwest B.C. The band council has officially and unofficially encouraged these businesses as good for that native community. However, both businesses have failed. According to the individuals familiar with the circumstances, these operations have failed due to insufficient business. Rather than spending their money at these establishments, members of the native community drive by them on the way to larger communities. When we inquired into the reasons for inadequate support, most responses suggested that community members used shopping trips as a form or entertainment and to get out of the relatively isolated community. More specifically, none of the native individuals interviewed felt any loyalty to the success of these business establishments. Here, in a low specificity circumstance (many alternatives to the on-reserve gas or supply store), the result was a collectivization error by both the band council and the business venturers. The error occurred due to inadequate competition cognitions (lack of understanding of market realities, or a lack of the capability to create business strategies that could make the work of the business competitive).

Further, for on-reserve businesses in isolated communities to succeed using collectivization as opposed to competition cognitions, the businesses require the support of the whole community; collectivization must be a total community decision. However, under the present band council system, the council as the central planning authority does not have a consensus-based economic mandate. Rather, it is a majority-vote system (more akin to a market) that consistently produces disaffected minorities who do not necessarily feel bound by council decisions (such as encouraging patronage of private on-reserve businesses). Accordingly, collectivization in market-like (low specificity) settings is predicted to fail. Market alignment, through the effective use of competition cognitions, is predicted to be the key to economic development.

Interestingly, collectivization errors were less likely under the traditional hereditary chief system (as contrasted with the INAC "elected Chief-in-council" system). In our investigation of recorded oral traditions that form the cultural foundation for the peoples of northwest B.C. (Robinson and Wright 1962), the cultural institution that supported effective collective economic activity was "the feast." To ensure that the entire community was in support of collective action in low-specificity

circumstances (i.e., where many alternative courses of economic action were present), a feast or a series of feasts was given by the chief, during which consensus for collective action (the requisite competition cognitions) was built. In this manner the hereditary chief system, while still a command economy, was able to ensure that attempts at collective economic action in low specificity circumstances were successful, and thus avoid the Type I (Collectivization) errors encountered in the Nass Valley.

(+) Box 2 – Market Alignment: The heavy equipment operations of Kitamaat Village are privatized. Low specificity circumstances are characterized by the availability of market alternatives (Mitchell 1992; Williamson 1985). Market alignment in low specificity circumstances means that markets are predicted to succeed. Privatization, the movement of non-specific assets from hierarchy to market, is one possibility.

In the case of Kitamaat Village, the band council had jurisdiction over heavy equipment operations, road maintenance equipment, hauling trucks, excavation equipment, etc. Over the past several years, the band council staff, using its continually developing competition cognitions, has begun to systematically contract out these services, gradually transferring the ownership of the equipment, the responsibility, and the related cash flows into the private marketplace.

In this situation specificity is low. Demand for these services is relatively constant. The skills necessary to run these businesses are possessed by a number of individuals who have been trained to effectively and efficiently operate and maintain the needed equipment. Thus, as predicted by Transaction Cognition Theory, for such a market, the transactions related to heavy equipment operations have been successfully externalized from government operations (privatized). The band council selected a course of action that was consistent with the autonomous economizations of the market. The only drawback reported in our field work was the need to go slowly due to the unfamiliarity of decision-makers with this new approach to governance and the inevitable wariness that is created when the outcome is at risk in a new marketplace and is not (as much) under political control.

High Specificity Examples

(+) Box 3 – Hierarchy Alignment: The case of the B.C. First Citizens Fund. In high specificity situations, alignment occurs when governments utilize hierarchy to govern the transaction set in question. In the case of the B.C. First Citizens Fund, this approach has met with success.

In 1969, B.C. Premier W.A.C. Bennett set aside $25 million to be used to fund First Nations' culture, language, and economic development. The fund has grown to over $40 million, according to interviewees familiar with the circumstances. Over the years, the fund has been used as a catalyst for native friendship centres, to provide transportation for native elders to enable the continuation of important cultural institutions, and for student bursaries related to culture, language, and economic development.

According to the predictions of Transaction Cognition Theory, the effective and efficient management of the fund over the years is the result of appropriate competition cognitions. That is, in this high specificity situation (the allocation of funds based on unique projects and judgments about the projects) the existing hierarchy has been essential to the preservation and growth of the fund.

Unfortunately, there are voices in the B.C. political arena who, unaware of the potential for deleterious consequences, suggest that these operations should be privatized. Transaction Cognition Theory suggests privatization of the fund would be unwise, due to the Type II (Privatization) Error that looms if such attempts were to proceed. An example of this error follows.

(–) Box 4 – Type II (Privatization) Error: INAC dismantles existing programs in anticipation of the Nisga'a Treaty signing. On May 11, 2000, the Nisga'a Treaty took effect. Among other things, the treaty provides for lands and money to the Nisga'a First Nation. Although many future decisions of the Nisga'a Tribal Council (now referred to as Nisga'a Lisms Government) may be susceptible to interpretation by Transaction Cognition Theory, it is in the INAC decision framework *prior to the effective date of the treaty* that we see an example of the Type II (Privatization) Error.

During the months and years leading up to the signing of the Treaty, the relationship between the four Nisga'a bands and INAC was less than stable. According to individuals involved in the band governance process, as the treaty process proceeded, the programs on which the bands depended for smooth operations in economic development, health, and education were dismantled well before the need for them expired. If the return of lands and money to the NTC (now referred to as LISMS Government) can be considered privatization, then the premature dismantling and atrophy of existing systems can be described as a Type II (Privatization) Error.

According to our research data, transaction costs increased due to:

- the postponement of capital projects (e.g., subdivision development);

- the inaccessibility of funds for Community Grant Branch Joint Projects (e.g., for recreation centres);
- the refusal to continue Capacity Building (e.g., native leadership development) in an otherwise (to other bands) well-funded program; and
- the curtailment of "off-reserve" services (e.g., community futures).

The comment that summarizes our interviews on these matters during the period leading up to treaty signing is: "if you are Nisga'a, you're shut out of INAC." As a result, economic development, and even broader social development, has been compromised due to the inadequate competition cognitions within INAC that were caused by a privatization error with its roots in the inadequate competition cognitions.

Analysis and Conclusion

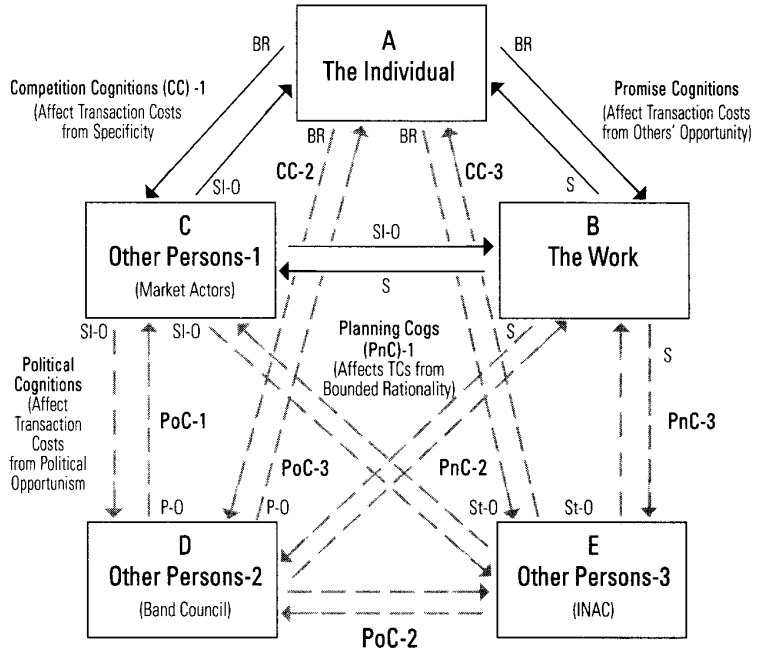
In this section, the cases and theory are further analyzed and interpreted to suggest generalizable explanations and concepts for the creation of market economies in northwest B.C. Suggestions for policy and practice are developed. This section is composed of two parts: (1) an analysis of the transaction cognitions currently present and influencing the northwest B.C. situation; and (2) the likely impacts on economic development of the presence or absence of the requisite transaction cognitions.

Analysis of current transaction cognitions

In our meetings with band economic development officers (EDO's) on-reserve, and with other groups of native leaders, we have continually been confronted with the probing question: Why do most private enterprise initiatives on-reserve fail? This article has developed an application of Transaction Cognition Theory that can contribute to answering this question. Transaction Cognition Theory suggests that three sets of effective economic cognitions (planning, promise, and competition cognitions) working together are sufficient for successful economic transacting. In the paragraphs that follow, our analysis of the presence or absence of these three effective cognition sets in the aboriginal case provides some insights.

Under section 20 of the Indian Act of Canada, most transacting must by law[4] involve the band council and the Minister of Indian and

Figure 5: The Planning, Promise, Competition, and Political Cognitions Required in Native Transacting



Northern Affairs (the INAC civil servant bureaucracy), in addition to the individual transaction creator, the work, and other persons. Thus, instead of having to master the three cognition sets suggested by Transaction Cognition Theory to be sufficient for market transacting, economic actors in the current on-reserve native economic development arena must master the 10 cognition sets illustrated in Figure 5. To facilitate an explanation of the relationships shown in Figure 5, a discussion of the various components in the diagram follows.

[4] This aspect—the legally mandated inclusion of other parties to a transaction—is critical. Stakeholder theory provides for the systematic identification and explanation of the role of *other persons* who may or may not become involved in a transaction, depending on the relative incentive or disincentive offered within the marketplace. However, when inclusion of certain parties in a transaction is mandated under law, then the model must be altered accordingly to accommodate and explain the cognitions that are required to manage the relationships with mandated parties.

As illustrated in Figure 5, the addition of two "other" parties to the transaction mix greatly complicates the transacting process, and increases the level of cognitive skill needed to succeed within the transacting environment created by the Indian Act. As suggested by previously developed theory, each of the "other" parties to the transacting relationship brings opportunism: types of self-interest seeking with guile. To fully interpret the implications of this higher-complexity transaction relationship, it is useful to first examine the exact nature of the opportunism that each party introduces into the transaction calculus and to explore more deeply the additional transaction cognitions that are implied; and second, to examine in more detail each of the 10 cognition sets required for successful on-reserve transacting.

Implications of multiple additional types of opportunism

The general transaction cognition model suggests that promise cognitions are requisite for dealing effectively with opportunism. Because the on-reserve transacting environment has two additional "other" parties to the transacting process, the problem becomes the identification of the specialized promise models that are needed to support transaction completion. Thus, the introduction of additional theory to support such an explanation is necessary.

The nature of the problem (the evaluation of opportunistic relationships among various groups of others within a transaction) suggests an appeal to political cognition theory, which defines the association of cognitive processes with political (multiple others) behavior (Barner-Barry and Rosenwein 1985, 141). Political cognition theory suggests that political decision-makers also utilize mental models (referred to as operational codes) that are shaped by decision-maker values and political objectives (George 1969; Leites 1951). Thus, political cognition theory suggests a strong relationship between cognition and political behaviours.

However, the political cognition literature appears to be underdeveloped in its explanation of transacting relationships, being "almost deadeningly silent on the issue of leader-follower relationships" (Barner-Barry and Rosenwein 1985, 138). It therefore appears that there is a need for additional theory development in the area of transaction-based political cognitions, especially as these cognitions apply to the dimensionalization of the types and effects of opportunism within the on-reserve transacting system. The analysis proceeds to address this issue next.

The three previously noted "other" parties to the on-reserve transaction are: market actors, the band council, and the Minister/INAC. As expected, market actors (the original other persons in the basic transaction cognition model) bring material (or dollar) opportunism to the transaction. This type of self-interest seeking of goods and services described within the TCE literature (Williamson, 1985, 1991, 1996b) that results in self-protection/hazard minimization behaviors in the face of intrusions (social, political, etc.) into the transacting process. Self-protection cognitions might therefore be considered to be the first political cognition subcategory (PoC-1) of promise cognitions.

With respect to the opportunism introduced by the band council, political cognition theory suggests that the type of opportunism brought into the transacting relationship by elected officials will be based in the acquisition and maintenance of power (Barner-Barry and Rosenwein 1985, 238-239). That is, decision making by the band council is likely to be shaped (at least partially, but materially) by the desire of elected leaders to retain office (power) and exercise authority (Etzioni 1988). Accordingly, the cognitions that are required to manage power opportunism might be characterized as authoritarian cognitions (Barner-Barry and Rosenwein 1985; Stanford 1973, 144), the second political cognition (PoC-2) subcategory of promise cognitions.

The opportunism introduced by INAC involvement is again different. Political cognition theory suggests that the operational codes of a government bureaucracy that is responsible for administering the law (the Indian Act) will center around stewardship – ensuring adherence to the rules inherent in the sociopolitical environment (e.g., the Act) (Rosenberg, Ward, and Chilton 1988, 12) to avoid criticism. Thus, it might be expected that the cognitions that are necessary to manage the stewardship-based interventions of INAC will be compliance-based (PoC-3).

Table 2 presents these relationships in an analytical format similar to that originally utilized to dimensionalize the TCE model (Williamson 1985), and suggests the basic cognition sets necessary for successful transacting. Noteworthy in Table 2 are the systematic relationships among components of the model. Interestingly, the discussion focuses on only one direction of this bidirectional model, as did Williamson's in the case of TCE. For ease of bidirectional reference, Table 2 shows both of the drivers of political relationship promise behaviors (e.g., Altruism ´Self-protection) implied by the presence or absence of the various types of opportunism that exist within the on-reserve transacting environment. In Figure 6, the political cognition area (containing the specialized

native promise models) of the overall model of Figure 5, is illustrated to facilitate theoretical consistency.

The ten types of on-reserve transaction cognitions

As shown in Figure 5, there exist 10 sets of cognitions that, according to the logic of Transaction Cognition Theory, are necessary to accomplish on-reserve economic transactions. Figure 5 utilizes abbreviations to map each type of cognition and the circumstances under which each set is required. In Table 3, each of the 10 types of on-reserve cognition is described in more detail. Given the vastly larger quantity of cognitive maps required to successfully transact in the native economy, each requiring substantial development (Arthur, 1994a; Lord and Maher 1990; Walsh 1995), it is little wonder that few private businesses succeed there. In fact, our analysis suggests that transacting with customers (i.e., the development of private enterprise on-reserve) is the least likely to occur for the reasons that follow.

First, as shown in the case studies and analysis, individual planning cognitions on-reserve are not focused on the customer as the source of economic well-being. Rather, the transaction cognitions of natives on-reserve appear to be focused on the band council as the relevant "other" in the transacting process. The (-) results, such as in the Nisga'a halibut license case, are more prevalent than the uncommon (+) results of the business privatization case of NNBC. Second, as also shown in the case studies, native promise cognitions appear to be stakeholder-based, and quite sophisticated in development; but due to the property rights anomalies created by the Indian Act, the promise cognitions on-reserve are focused away from market transacting and toward band councils and INAC. The (-) situations such as the building on-reserve case are pervasive, while the (+) case of the Sechelt Band property rights is virtually unique. Third, the case studies illustrate the relative absence of market competition cognitions in the aboriginal community in northwest B.C. The cognitions that form the foundation of sophisticated market strategic thinking are, in practical terms, missing: the cases of market alignment are rare, while the cases of collectivization and privatization errors are prevalent. Further analysis of the aboriginal case reveals at least five factors that are likely to contribute to this deficit in on-reserve competition cognitions.

It has long been thought that the absence of a competitive social framework in subsistence-tradition cultures was caused by scarcity, which creates an image of limited good within the minds of the membersof these societies (Foster, 1962). In the native case in northwest B.C.,

Table 2: Some Attributes of Native Political Processes

Source of Potential Conflicts			
(Market Actors) Self-Interest opportunism	(Band Council) Power Opportunism	(INAC) Stewardship Opportunism	Implied Promise: (Type of political relationship behaviour)
0	+	+	Altruism ↔ Self-protection
+	0	+	Laissez-fair ↔ Authoritarian
+	+	0	Service ↔ Compliance

0 = absence, + = presence

Figure 6: Specialized Native Promise Models: Due to Transaction Costs Resulting from section 20 of the Indian Act

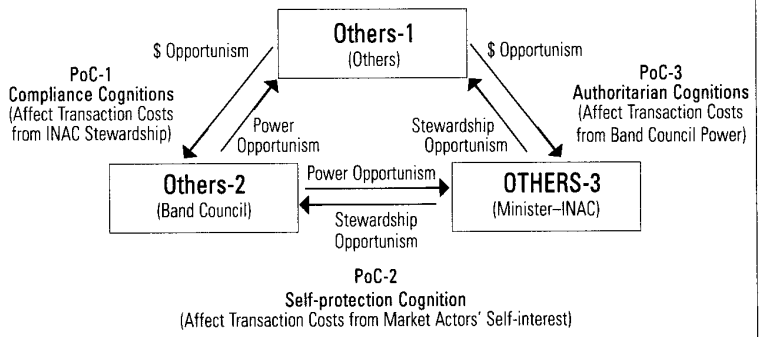


Table 3: Transaction Cognitions Required Due to section 20 of the Indian Act

Transaction Cognitions	Description
Planning Cognitions-1 (PnC)-1	Mental models that assist in developing analytical structure to solve previously unstructured market problems in the provision of the work to those other persons who consume it (e.g., the business plan, which answers the question: What plan is necessary to deliver the work to customers?) (Stevenson, Roberts, and Grousbeck 1994)
(PnC)-2	Mental models that are necessary to ensure band council support of work produced.
(PnC)-3	Mental models that are necessary to ensure that work is approved by/not opposed by, the Minister-INAC.

Transaction Cognitions	Description
Promise Cognitions	Mental models that help in promoting trustworthiness in economic relationships with, e.g., stakeholders (Agle, Mitchell, and Sonnenfeld 1999; Mitchell, Agle, and Wood 1997). Stakeholder identification and salience cognitions (Mitchell and Agle 1997) are essential in market relationships. But see political cognitions (below) for the additional promise cognitions required due to section 20 of the Indian Act.
Competition Cognitions-1 (CC)-1	Mental models that can create sustainable competitive advantage in creator-customer interactions about the work (e.g., I/O strategy: differentiation or cost competitiveness (Porter 1980)).
(CC)-2	Mental models needed to manage creator ↔ band council interactions where there is external power exercised with respect to the work (e.g., Resource Dependence strategy (Pfeffer and Salancik 1978)).
(CC)-3	Mental models needed to manage creator ↔ Minister/INAC interactions about the legitimacy of the work (e.g., Institutional theory-based strategy (DiMaggio and Powell 1983)).
Political Cognitions-1 (PoC)-1	Compliance Cognitions: Mental models needed to manage the relationship between market actors (such as customers) and the band council, in light of the statutory duties of INAC.
(PoC)-2	Self-protection Cognitions: Mental models needed to manage the relationship between the band council and INAC, in light of the self-interest concerns of market actors (such as customers).
(PoC)-3	Authoritarian Cognitions: Mental models needed to manage the relationship between market actors (such as customers) and INAC, in light of the power concerns of the band council.

however, the argument is not as clear-cut. Until the time of first contact with Europeans, native histories chronicle that, apart from the infrequent natural disaster, the society was endowed with plenty (fish, timber, fruits, game, etc.) (Robinson and Wright 1962). Why, then, would competition cognitions be virtually nonexistent in such a society? First, it appears that in the native case in northwest B.C., the image of limited good was less about competition than it was about obedience to the laws of nature. The "law of the land of Ksan" (Robinson and Wright 1962, 5-14), for example, forbids individuals to take more than is needed from nature. Native oral histories are replete with examples of the calamities that befall those who violate this law, such as the morality tale of the Little Goat, and the resulting retribution at "L – La – Matte" (Robinson and Wright 1962, 5-14). Competition cognitions that require the production of surplus for resale may thus be dampened by cultural norms.

Second, the system of government under hereditary chiefs was a command economy that corresponded to its feudal system counterparts found in Western Europe. As suggested in earlier comparisons to the former U.S.S.R., and related work in the small business arena (Mitchell and O'Neil 1998) business conducted under a feudal order is more about politics than about competitive markets. Market competition cognitions are unlikely to be developed or refined under systems that insert politics into transactions.

Third, as indicated in the analysis earlier in this paper (Table 3), the primary source of competition cognitions in modern market transacting is the strategy (Porter 1980). Strategy scholars often note (Thompson and Strickland 1995) that competitive strategy has its roots in military strategy, for example in Sun Tzu's *The Art of War*, from 300 B.C. (trans. Griffith 1984). However, during the years following first contact, the cognitions of warfare were systematically suppressed among native populations to minimize the risk of physical danger to the colonizers. The arts of war – the roots of strategic (competitive strategy) thinking – were thus viewed with great suspicion and repression during the imperialist years (Boldt 1993, 3).

Fourth, within trade-based economies such as those historically present in northwest B.C., most transacting was accomplished using spot markets. As in other more primitive economies, the more sophisticated market mechanisms that involve contracting over space and time, and the supporting competition cognitions, are missing (Olson 1998).

Fifth, the traditional competition cognitions in northwest B.C. that are expected to persist to some degree have been trade and/or tariff-

based. Oral histories explain that for vast periods of time the economic framework consisted of the control of territory by clans. The Grizzly Bear clan, for example, exercised its rights of control over territory by control of the Skeena River. Other peoples who desired to utilize the waterway paid tribute to Grizzly Bear chief Neas Hiwas (Robinson and Wright 1962), and by this tariff mechanism, markets such as they existed, were able to operate.

Summary

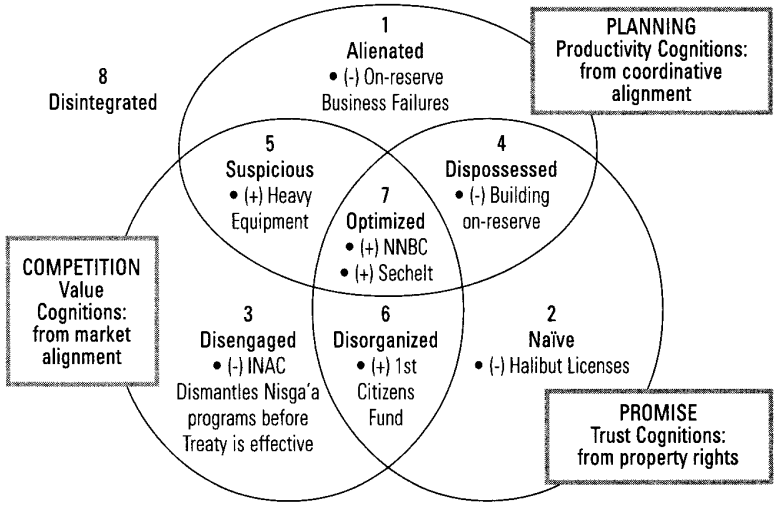
Thus it appears to us that private enterprise is less likely to occur on-reserve because the focus of native society is not, and has not been, on the market transaction cognition triangle (a b c) depicted in Figure 5. Instead, the focus is on the political cognition triangle (c d e). Thus, on-reserve planning cognitions appear to be misdirected and underdeveloped in the market case. On-reserve promise cognitions also appear to be misdirected and underdeveloped in the market case due to the lack of property rights and the associated presence of an added set of rival promise cognitions, political cognitions. Competition cognitions are essentially missing. This differential is, we believe, the primary reason that on-reserve private business has such difficulty. In the final section of this article we examine the likely impacts on economic development of the present levels and emphasis of transaction cognitions among native peoples in northwest B.C.

Likely impacts on economic development

The presence or absence of the requisite cognitions figures heavily in the actual outcomes that we observe within the native communities of northwest B.C. If William James' assertion that "we become what we think about" is true (1890, paraphrased), and if poverty and economic underdevelopment are about inadequate understanding, as suggested by Grameen Bank founder Muhammad Yunus (1998), and not about land, labour, or capital, then economic development challenges in northwest B.C. can be productively viewed through the lens of Transaction Cognition Theory.

Our research shows that the presence or absence of the requisite cognitions is not uniform across the native communities of northwest B.C. Rather, as illustrated, there are pockets of cognitive capability that exist along side an absence of the transaction cognitions: planning, promise, and competition. Thus, the systematic interpretation of the results of our research suggests that the three-variable analysis model

Figure 7: Example Society Level Variations in Economic Outcome Condition as a Function of Planning, Promise, and Competition Cognitions



applies (Figure 7). When examining the process of economic development in these communities, it appears prudent to become aware of the various circumstances that form the cognitive foundation on which the next steps must be built. As illustrated in Figure 7, a variety of economic and cognitive consequences of native planning, promise, and competition cognitions that presently exist in northwest B.C. can be expected.

The adjectives utilized as identifiers within the diagram describe eight possible outcomes of the presence or absence of the three Transaction Cognition Theory variables. Within each area, we have plotted the example cases utilized in this paper as illustrations. The relationships and illustrations shown in Figure 7 suggest that the positive-negative economic consequences of the presence or absence of particular society-level cognitions are systematic. As a result, the likely impacts on economic development of the possession of the three key transaction cognitions become clearer.

Conclusion

Our conclusions are relatively straightforward. It is our assessment, based on the concepts and analysis presented in this paper, that two contingencies will influence the likely success of economic development

initiatives in northwest B.C. First, unless on-reserve property rights akin to those available to other transacting parties in the global economy are made available, economic development initiatives are predicted to fail, as they have an inadequate foundation in a market economy, especially with the corresponding retreat of band councils and INAC from their complicating role in transacting. It is unclear to us whether ongoing treaty negotiations with various First Nations will produce such rights or whether additional governance options should be considered. It is clear that, from the standpoint of success in economic development, this objective should have the highest priority with negotiators on both sides of the table.

Second, unless economic decision-makers (leaders, venturers, and even the general members of on- and off-reserve native society) possess levels of planning, promise, and competition cognitions that are sufficient for their roles in economic development, the settlement of aboriginal claims based on land and cash will be inadequate to ensure a vibrant on-reserve economy. Given the brief elements of history that we have incorporated in our research, and the evidence reported in our case studies as a sketch of the transacting landscape in northwest B.C., it is our assessment that a significant and long-term commitment to the acquisition and maintenance of modern market cognitions is essential, if the economic aspirations of aboriginal peoples, that we have heard expressed are to be realized.

Thus, our analysis boils down to two simple dicta: property rights and transaction cognitions are the basis for sustainable economic development within the aboriginal communities of northwest B.C. If, as William James suggests, we become (or realize) what we think about, then these are the two objectives that, in our opinion, are worth thinking about.

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