

# Doing Good While Doing Well

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## Introduction

*This presentation is about building wealth while enhancing the environment. At the end of the day, we all have to decide how we spend our time, talents, and resources. Why not use them to “do well”, while “doing good”?*

Imagine what you believe to be the most beautiful place on earth and think about all the elements of that picture worth conserving: the shape of the land, the vibrance of the colors, the diversity of plant and animal life, the quality of the air and water and the texture of the soils. Then think about the things that give that place meaning and make it worth protecting: the geological, biological, and cultural history; the goods and services that it provides; the way it fits in your world as a place of beauty, refuge, recreation, or solitude. Think of all the people who value that picture: its mountains and hills; its fields and forests; its wildlife - big and small; and the human communities associated with it. Your picture can include preserving a rural community or an endangered species, and it can involve active participation by humans or the passive knowledge that a place exists without overt intervention. When we talk about conservation, what we are really talking about are the relationships that make your picture a reality. Everyone’s picture is a little different and we certainly can’t have everything all at once in every place. But, when you think about it carefully, it isn’t hard to imagine how we can have almost everything we value in some place at least some of the time.

## What Do We Want and How Do We Achieve It?

Changing the world intentionally requires knowing the answers to two key questions. The first question is, “What do we want? In the context of modern conservation, most of us want a system that: 1) recognizes the difference between outcomes and rhetoric, 2) rewards those who “create” or increase value, 3) enhances long-term land health and overall ecological, social, and financial wealth, 4) operates voluntarily, 5) encourages transparency and accountability, 6) respects diverse opinions while adhering to consistent, coherent guidelines, 7) honors the importance of site-specific knowledge, and 8) acknowledges the practices and perspectives of indigenous cultures.

Once we know what we want from conservation, how do we move from where we are now to where we want to be? Aldo Leopold said, “*The health of land is its capacity for self-renewal; conservation is “our” effort to understand and preserve this capacity.*” To solve problems and achieve outcomes sometimes believed impossible, we have to think critically about the constraints to success. Thinking “outside the box” is a popular expression about creativity, but in order to succeed, we need to carefully consider the “walls” that keep us from succeeding. In other words, we need to think *about* the box or the limitations we unwittingly impose on ourselves. Often our obstacles are not the reality we assumed, but instead reflect a lack of knowledge, inhibitory perceptions or deep beliefs, imperfect skills or abilities, and insufficient social, political, or financial capital. Once we understand these constraints, we can systematically analyze and minimize each type of barrier.

## The four-step process.

**Increase Knowledge.** The first step to changing things involves clearly understanding the current situation. To create the future we have to apply the **lessons** of the past, not the **methods** of the past. In the past 50 years, the conservation movement has expanded in response to a growing awareness of the

increasing scarcity of environmental goods and services. Yet, even as conservationists compete with developers, more and more species and habitats become threatened with less and less land to support them. This is less a reflection of conservation's inability to keep pace with development as it is an unintended consequence of the methods used to achieve it.

In many instances, land prices would be much lower if conservationists and governments were not in the market. These groups' tax-based competitive advantages allow them to outbid private enterprise and drive prices up. Nevertheless, no matter how much is done or how much money is spent in this fashion, the amount of land saved will always be less than what is threatened. Conservation purchases and easements do not stop development, they merely redirect it towards neighboring lands which are now more desirable for development because of their adjacency to "protected areas". To increase the positive impact of conservation efforts, we must look for options that circumvent this vicious cycle, get ahead of the problem, and put downward pressure on the process.

As a result of scarcity and inflation, the cost of land-based conservation efforts escalates, reducing the cost-effectiveness of every subsequent project. Interestingly, agriculture faces the exact set of relationships viewed differently. Inflation and regulatory constraints increase operating costs, while rising land prices make it harder to buy, expand, pay off family members, or hold on. Because of both increasing operating and opportunity costs and stagnant commodity markets, profits from land-based agriculture have been steadily declining, resulting in fewer and fewer viable operations, creating incentives for landowners to fragment and accelerating the very process both conservationists and producers wish to stop.

**Challenge Paradigms.** If competition accelerates threats and compounds the very problems we mean to solve, we need to look for a better way. Invariably, solutions challenge existing, entrenched, readily accepted practices and perceptions. For example, people often assume ecosystems function best without humans and that some sort of consistent natural outcome will occur. However, this static perception is frequently incorrect – especially if we do not understand how important components of a system interact. If we don't know what principles and processes are at play, we can't efficiently influence the system. On the other hand, if we do understand how systems operate we can intervene appropriately and create a positive effect that improves over time. Small differences in initial trajectory can result in dramatically different outcomes.

One of the paradigms we need to overcome involves the incompatibility of profit and conservation. Organic systems experience a phenomenon called the "growth curve." The process consists of three phases: 1) rapid growth and instability, 2) relative stability, but increasingly slower growth, and finally 3) decline. By definition, the ecological carrying capacity is at the juncture between Phases 2 and 3. By nature, the economic carrying capacity is well to the left of that point, meaning maximum profit and conservation co-exist in persistent systems. In other words, long-term profit maximization and sustained ecological productivity are perfectly aligned. In the long run, responsible resource management will net higher cumulative returns unless external forces change the inherent production and incentive structure.

Another troublesome paradigm is the belief that personal interests, such as greed, drive resource problems. Unfortunately, that's not entirely true. Incentives determine peoples' actions. Risk of punishment and reward influence the flavor and appeal of different incentives. While both factors motivate us, positive consequences generally engender more favorable attitudes. What is probable is always a subset of what is possible, making incentives that occur lower on Maslow's pyramid, affecting our physiological or safety needs both more effective and more broadly applicable than higher-order threats or enticements that appeal to our esteem. Incentives that transcend levels vertically are especially attractive because they can be effective on multiple grounds and they provide satisfaction in multiple currencies. Furthermore, enforceability increases the value of a reward and decreases the uncertainty of risk, while retractability

diminishes risk and changes the perceived cost of acting. Thus, the most powerful incentives include many facets, offering relative certainty, multi-dimensional rewards, and manageable risk.

**Improve Funding.** No matter what the desired outcomes, systems can be designed to encourage people to act in their own best interests to create those results using the right mix of intrinsic and extrinsic motivations. However, different people will always view different conditions differently, meaning managers need to understand and account for different value systems. Everyone on the planet makes decisions that include many facets. We often think of funding as strictly financial and only view economics as it relates to money, but economics is the study of how scarce resources *of any type* are used. Interestingly, all of us make decisions based on a combination of different currencies, or forms of wealth. We call four of the dominant aspects “the Four Forms of Wealth” because they each represent transferable currencies in the land management equation. We can create more wealth and better ensure the well-being of all participants by acknowledging the distinctness of each currency and recognizing people value the various forms of wealth differently in any given circumstance. The four forms of wealth we are interested in are: 1) ecological, 2) social, 3) personal, and 4) financial. All of a person’s needs - to live, love and be loved, learn, and leave a legacy - are achieved through these currencies. Lasting resource solutions must include all four considerations.

Current conservation models rely primarily on taxes or donations, yet both methods are inefficient means for allocating resources because some people benefit disproportionately while others overpay for outcomes they do not value. Good intentions do not necessarily make good systems. Under current models, people who care about the environment must either give their money away or have it taken. In the end, it is gone.

There is a better way. If conservation is valued and funded as an investment rather than a consumable, then resources allocated to it can be recallable when supporters choose another alternative or when desired outcomes disappear. This approach creates greater connectivity between supporters and stewards. Stewards are held accountable for outcomes and are encouraged to innovate to create more value.

**Enhance/Coordinate Skills & Abilities.** Sound land management involves enhancing and promoting a variety of values landscapes produce. However, properties are rarely owned or managed for more than one or two value-creating enterprises. Not only can more than one such enterprise co-exist, but often substantial complementarities can occur between enterprises that improve the efficiency of each. For example, livestock can be used to enhance habitat for wildlife, wildlife management can influence the recreation and real estate value of properties, range management can dramatically influence water cycling, and oil and gas exploration can subsidize habitat improvement projects.

Many land-based businesses are autonomous, much like a single fruit tree. Traditional enterprises harvest the fruit that readily falls to the ground. With progressive management techniques or additional efforts that stretch the individuals or organizations, low hanging fruit may also become available, making the property more economically efficient. The project-level perspective focuses on the resources of individual properties or “projects.” The point so far has been to illustrate the value of an integrated approach to land management from the perspective of these individual properties or “projects.” The real need is for people with the ability to view properties, not only as trees that can bear multiple fruits, but as an orchard in need of more efficient systems for harvesting and delivering the hard-to-reach produce.

Effective management and efficient integration of compatible land-based enterprises offers a variety of opportunities to enhance property revenues without harming long-term processes. We can all improve our capacity to effect change, but sustained success at complex natural resource management takes a team. In nature, diversity is imperative. No one person can maximize the value of real property alone – even if they are the best in the world at what they do. To succeed at the next level we need each other.

With thoughtful management, multiple land-based enterprises can contribute to profitable integrated businesses compatible with long-term objectives. In conjunction with clear project objectives, efficiencies of size and scale can be realized by combining properties in a cohesive system, much like orchards combine multiple trees to harvest and deliver their products more effectively.

#### **Four Steps in Practice: A New System for Sponsoring Land Health and More Wealth**

There are really only two ways to accelerate land-based ecological, social, or financial wealth: 1) better financing and 2) better management. Finance considerations concern how ownership is structured, affecting the terms and actual cost of debt, and equity distribution and opportunity costs. Management considerations include the entire suite of industries and enterprises land supports. Effective stewardship necessarily involves the owner (private or public) and requires great ability. With the appropriate authority and responsibility along with carefully considered constraints, competent managers can better integrate the layers of value land offers, provide superior outcomes and produce evidence of them, be they ecological, social, financial, or personal in nature. Landowners and managers are not necessarily different individuals, but they are distinct roles with regard to the ability to generate cash flow from operations and harvest land appreciation. These roles and their rewards can be linked in ways that enhance the opportunity and ability to generate wealth. The cost of ownership is a large proportion of any land-based business. But, *the ability to provide superior outcomes and clear evidence of their existence creates opportunities* to: 1) reduce reliance on traditional financing, such as high-cost bank loans or personal equity, 2) access alternative low-cost debt capital, and 3) increase the appeal of outside equity participation.

On the debt side of the equation, ultra-low or no-interest loans can be provided in return for temporary conservation easements, management assurances, and financial security. Transparency, accountability, and integrity are fostered because participation at every stage is voluntary and retractable. This approach gives people a safe haven for their conservation dollar and a voice in land management that doesn't exist in current conservation models. To create a conservation loan program, contributors could entrust a reliable non-profit organization with personal funds. Similarly, local or regional governments, such as municipalities and counties, might assess a special tax for open space or conservation of key areas. Proposals for access to the funds go through appropriate ecological and financial filters, but could provide ultra-low interest loans to landowners willing to provide security and conservation outcomes. A minor interest fee could be included to support on-going monitoring and improvement efforts. While such programs are neither simple nor easy to create, significant advantages accrue to sponsors and participants when compared to conventional conservation easements or fee purchases. In addition to lower debt service, innovative equity financing can accelerate growth and add stability. For example, specific interests, such as recreation access for hunting or fishing and other definable rights, can be purchased without acquiring sole title. This opportunity allows people superior access to their favored land values by spreading the cost of ownership and pooling resources from diverse interests.

This model becomes possible only by combining the ability of competent managers with the interests of people willing to: 1) reduce the cost of capital or 2) contribute equity financing in exchange for evidence of or access to their desired ecological, social, or personal outcome. The model provides superior alternatives to supporters of sound stewardship and the opportunity and incentives for owners to convey appropriate authority and responsibility along with carefully considered constraints to managers capable of providing desired outcomes. It also encourages managers to generate cash flow, accelerate land appreciation, develop efficient management and monitoring systems and train others while welcoming independent review. Ultimately, this approach gives people a voice in land management that doesn't exist in current conservation models and a participatory experience superior to other alternatives. It is also designed to attract exceptional people and reward them for improving long-term value of all types. One of the reasons a new model is needed is that properties consist of multiple types of value that are not efficiently enhanced or easily accessed under conventional ownership structures.

## Examples

The Beaver Creek Ranch in North Dakota, Deseret and Birch Creek Ranches in Utah, and Ted Turner's Flying D and Vermejo Park Ranches near Bozeman Montana each provide partial examples of this approach. In each case, management plans for grazing, monitoring, and weed and water management help better manage the physical property, increasing the ability to market the property and its attributes and providing an opportunity to help educate local partners, such as other ranchers and agency personnel. Owners also invested in private wildlife management efforts to demonstrate integrity towards conservation issues and open doors with wildlife interests and sportsmen's groups. In North Dakota, a clear policy statement surrounding surface and subsurface rights and a structured ownership system guides development of new projects, helps maintain sound relationships, and codifies an equitable method for making periodic property valuations, facilitating transfers, and streamlines decision-making and conflict resolution processes. Management activities that increase or diversify income, such as developing a new revenue stream by providing walk-in access for hunters or changing surface lease agreements, affects production, existence, and investment values. In Montana, new methods for raising and feeding bison were devised to better match the animals' natural disposition, while enhancing ecological health and reducing feed costs. In many such examples, changes made over relatively short periods can have dramatic results, especially when coupled with the relatively safe features of a land-based asset. These concepts are broadly applicable to many settings, not just specific properties.

## Summary

*Historically, land has been a tool to generate profits. Now, profits can be a tool to care for land.*

Rural Lands can offer an attractive investment alternative and provide lasting value to society *if* managed properly. Because these ideas are based on universal ecological, economic, and behavioral principles, they can be applied in virtually any setting – in our own back yards or around the globe. In short, principled, profitable conservation is possible anywhere in the world. But, to create better outcomes in the future we need to have better understanding and use better methods than we have in the past.

Maintaining and improving the health of the land and its capacity to renew itself, while promoting vibrant rural communities, sponsoring sound stewardship, and generating solid investment returns requires a new, profit-based business model for conservation based on the concepts in this document. Efficient capital markets can be coupled with ecologically sustainable, socially responsible, and profitable large scale land management if we accept three simple assertions: 1) “Bigger is Better” - big properties can provide a lot of value while offering unforeseen future options, 2) “Better is Better” - seeing these opportunities and developing them in ways that maximizes long-term wealth demands special skills and experience, and finally, 3) “There are New Ways to be Even Better Yet” - capturing these values requires a whole new, coordinated, integrated approach to harvesting different types of value. Stated more formally, these assertions are :1) Large landscapes support diverse ecological, social, financial, and personal interests, 2) Sound Management can optimize revenue while enhancing land's aesthetic and ecological character, and 3) Previously Under-Appreciated Attributes can be enhanced, unbundled, and more efficiently captured. The point is that although agricultural land is not typically viewed as an investment-grade asset – with superior management and strategic action – rural lands can generate attractive returns. Once this happens, incentives for degradation and fragmentation are offset by stronger, longer lasting rewards for preserving and protecting nature's contributions to society.

*Albert Einstein said, “Look deep, deep into nature and then you will understand everything better”. We propose to use this advice to influence the world for good. What will you do?*