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Enhancing Business-Community Relations

La Frutera and Paglas Case Study

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Contents

1. Introduction.....	2
2. In Violence and Carnage... ..	3
3. The Mighty and the Small United... ..	3
4. To be a Testament of Progress.....	3
5. ...In Values and Leadership	4
6. And the People Say... ..	5
7. That Peace was Good (More or Less).....	5
8. So They Took a Hard Look into the Mirror.....	6
9. ...And Continued to Strive.....	7

In the Business of Making Peace: La Frutera and Paglas in the Philippines

Research Project Background

This case study is one of ten that were chosen as part of the 'Enhancing Business-Community Relations' project in India implemented in collaboration with Philippine Business for Social Progress (PBSP). These cases document examples of engagement between businesses and communities and can be used as learning tools for the promotion of responsible business practice and sustainable development.

The Enhancing Business-Community Relations project is a joint international initiative between United Nations Volunteers (UNV) and the New Academy of Business. Implemented in seven developing countries, the purpose of the initiative was to collect and document information on business-community practices as perceived by all stakeholders, build partnerships with them and promote corporate social responsibility practices. It is also intended to enhance international understanding of business-community relations through information sharing and networking with other countries especially those participating in the project - Brazil, Ghana, India, Nigeria, Philippines, South Africa and Lebanon.

The findings and recommendations reflected in the case study are those of the author and do not necessarily reflect those of UNV, PBSP or the New Academy of Business. It is important to note that these cases were written as examples of business-community initiatives. They do not constitute a comprehensive assessment of the company's social responsibility.

1. Introduction

"Peace and development go together. We cannot keep on waiting for peace to come first. The reason why there is no peace is that there is no development. Fact is, if there is no livelihood, people can do anything as there is nothing to lose on their end. Now that we have given the Datu Paglas townsfolk gainful employment, they do not even want to lose even a few days' wages." Senen Bacani, Chairman, La Frutera Inc. ²

In the Autonomous Region of Muslim Mindanao, La Frutera Inc. is the investor in a banana plantation located on 1,300 hectares of land owned and represented by the Paglas Corporation. Remarkably, these "twin" companies are a veritable "United Nations of Bananas" in the heart of insurrection-torn and poverty-stricken Maguindanao, on the Philippine island of Mindanao. The collaboration was made possible by a partnership between the Saudi trading company Abdullah Abbar & Ahmed Zainy Co., Israeli farming experts, the Italian De Nadai Family, Chiquita Brands International and members of the separatist army Moro Islamic Liberation Front (MILF). Behind this partnership, the stalwart local leadership of Datu³ Toto Paglas promoted the development of the surrounding communities and uplifted the self-esteem of Muslim Mindanaoans. The story of these two companies cannot be extricated from the violent land which gave it birth.

2. In Violence and Carnage...

Mindanao was never conquered. As the rest of the Philippine islands were under colonial rule first by the Spaniards and then the Americans, Mindanao was under the nearly unchallenged control of Muslim noble families. The migration of Christians from the North became the matchstick for secessionist guerrilla fighting in the 1950s, and various groups emerged such the Moro National Liberation Front (MNLF) and the MILF claiming that they fight to protect Muslim interests.

Known as the Bangsamoro Nation, Muslim families represented by their respective Datus at various points supported these secessionists, often resulting in warfare between families vying for leadership in the "Moro nation". These conflicts were taken advantage of by mercenary groups and kidnap gangs, giving the whole of Mindanao, and Muslims in particular, a reputation for merciless bloodlust.

In 1988 Datu Ibrahim III 'Toto' Paglas became mayor of Datu Paglas and became witness to the violence that resulted in the murders of his brother and eventual death of his father. Breaking traditional retaliatory action, the 25 year-old Datu made it very clear that all criminal and terrorist activities would not be tolerated. His family ties to the MNLF and MILF led to direct appeals to MILF Chairman Hashim Salamat and by the 1990s Datu Paglas and neighboring areas were on the road to becoming an oasis of peace.

3. The Mighty and the Small United...

Datu Toto was able to convince the neighbouring leaders to form a consortium known as the Paglas Corporation (Pagcorp), and together with his substantial landholdings made available 1,300 hectares. In 1994, Datu Toto contacted a foreign investment group, represented in the country by Oribanex which managed several existing plantations in nearby Catholic Davao. The group was apprehensive because of the volatile situation in Maguindanao, yet its studies showed that the land was fertile, the water more than adequate and the weather ideal. In late 1997, the foreign investment group offered to lease the land for an equivalent of US\$ 70 a hectare a year – a trifle compared to the \$160 being demanded by landowners in other areas of Mindanao. A total of 1,500 hectares was leased and ultimately the Oribanex group made an investment of \$27 million, making it the largest foreign direct investment in Muslim Mindanao.

The plantation became known as La Frutera Inc., managed by the Ultrex Group (springing from Oribanex) from Manila and the Unifrutti group (Chiquita International). Datu Toto convinced MILF soldiers and sympathisers to work on the land instead of taking up arms, ergo providing the labour. The plantation was started up with Israeli technology and Ultrex brought in management know-how from the Christian North. The rising apprehension that began to emerge from the mixing of new cultures was largely calmed by the charismatic presence of Toto Paglas.

Datu Toto Paglas served as mayor for three more terms, and currently runs Pagcorp full time.⁴ Pagcorp handles labour relations and offers support services to the La Frutera in terms of trucking and security. A rural bank now operates in the area (supported by Paglas) and small commerce now lines the streets of Datu Paglas and the nearby municipality of Buluan.

4. To be a Testament of Progress...

La Frutera promoted cultural understanding among all employees, and the start-up Christian management, but the approach used was traditional Muslim. This was essential, because it was discovered that certain traditional practices were not religious in nature but were unique cultural

affectations of Muslim Mindanaoans. Ninety percent of employees were hired from local communities, about 2,000 workers and of which over 1,000 are regular employees.

Promoting cultural sensitivity became the priority concern during the first years. Workers were still toting guns, mostly out of habit, and the management was challenged to provide policies and practices that would bridge not only Muslim and Christian, but also rebel and pacifist, and men and women. Values training and capability building were prioritised, and nearly all of Datu Paglas and Buluan were employed by the company. These “new” values therefore began to filter down to the rest of the community. As more Muslims moved up the ranks, it showed management commitment that La Frutera would be managed both by Muslims and Christians.

The La Frutera Community Development Foundation was established in 2000 to implement specific social responsibility initiatives of LA FRUTERA. This was an offshoot of La Frutera's efforts to practice sustainable development through environmental and health management. The Socio-Cultural Section of La Frutera's Human Resources Development department is running the Foundation in collaboration with Datu Toto. One of its main projects is the establishment of a training Center providing livelihood prospects to the community. Most projects need to be approved by the Board as presented by the HRD manager; however some projects go directly to Datu Toto for his approval. The HRD department supervises values education and related training activities. Regarding direct community assistance, the La Frutera Foundation prioritises education and livelihood programs. The company also responds to direct requests from the community. All community relations' officers assume primary responsibility for project co-ordination, but all staff members are involved in various projects. The company also responds to requests made by the Mindanao Co-ordinating Council, which is co-chaired by Datu Toto.

The company is also demonstrating leadership in environmental and quality management. La Frutera is currently undergoing the process of becoming ISO 14001 and 9002 certified. In 2001, the company obtained its certification from Better Banana Project, a Conservation Agriculture Network program of the Rainforest Alliance. This means that La Frutera is committed to principles of: conservation of natural ecosystems; wildlife protection; good working conditions; community relations; minimisation & maintenance of strict control on the use of agro-chemicals; integrated waste management; and water and soil conservation, planning & monitoring.

Pagcorp also became a member of Philippine Business for Social Progress (PBSP) and acts as showcase for responsible business in Mindanao. Datu Toto stands as co-chairperson of the Mindanao Co-ordinating Council, which is the overall body co-ordinating all activities related to the rehabilitation of Mindanao. Community relations' activities have included information campaigns on concepts such as 5S Philosophy⁵ and sanitation; preparation of proposals for capability-building and non-formal education; scholarships; and financing for Hajj pilgrimages, etc. The company also conducts research and networking for livelihood partnerships with the community. Pagcorp and La Frutera also recently launched information campaigns on savings and setting up an emergency savings fund for workers at the local rural bank.

5. ...In Values and Leadership

According to Ed Bullecer, interim General Manager of Pagcorp and current Senior Adviser for UN & Special Projects, cross-cultural harmony is a priority in Pagcorp and La Frutera. More importantly, a resolute faith that “change is for the better” characterises management. “Some people still can't adjust,” says Rose Sira, HRD manager of La Frutera, but management understands Philippine Muslim culture, wherein an underlying sense of inferiority still exists. She remarked that the transformation of the local culture has been dramatic over the past five years. The leadership of Toto Paglas is one of the key factors in the success of the whole enterprise. But the combined

experience of other business leaders has given the company the background and expertise it needed to become a showcase. For example, La Frutera President Pedro Changco Jr. was formerly one of the landowners of the Dole Philippines plantation.

Rose Sira explains that La Frutera is a testament to true volunteerism, wherein even the investors agreed that business should be an instrument of peace instead of peace being a precursor to business. Ed Bullecer believes that Pagcorp embodies the spirit of the Bangsamoro which is essentially not to think of personal gain. Belonging formerly to the Oribanex group, he recalls the investors depiction of the fateful meeting in 1997 as "God's appointment". Corporate citizenship is done through paying right taxes, being responsible for all actions, advocating for ethical competition and not damaging its reputation in local communities. Ed adds that volunteerism is doing something without being asked. Rose believes that quality management is another key value that is also imparted to everyone in the company.

The Paglas experience has been shared in various fora, and some businessmen are becoming responsive to the idea. However, many point out that they do not have a Datu Toto to help them. Originally, Datu Toto was not responsive to the idea of self-promotion (as promoting the plantation meant promoting himself and the family) but his business partners convinced him that spreading the success story would give others hope – and that this could enable the experience to be replicated elsewhere. The local partners acknowledge that countryside development might seem more a political agenda than a business one, yet the investors felt it was also the company responsibility. The company believes that "peace and order is everyone's responsibility".

6. And the People Say...

Community representatives indicated that they highly respect La Frutera and support all its activities. However, political colour also can be found with some community members expressing concerns about dealing with the Paglas Corporation because of Datu Toto. In particular, community people suggested that Paglas acted as a manpower agency, getting a cut from the salaries of La Frutera workers as part of their "fee". They also contested that workers could not form unions because of Datu Toto rather than Islamic teaching. Unionism and some other aspects of western worker rights are considered un-Islamic by local Islamic authorities. They indicated that the other communities now offer an alternative for La Frutera workers, even though there is only the promise of development and no actual enterprise already in place. Rose rebutted that no additional fees were paid to Pagcorp for sourcing labour.

7. That Peace was Good (More or Less)...

La Frutera and Paglas benefited from 'Datuism'⁶ in the early stages. La Frutera would not exist without the combined faith of Datu Toto, and various local and foreign investors to develop a productive enterprise in the face of such adversity. However, as the company moves into its next five years, the investors and business managers realise that apart from social leadership, La Frutera and Pagcorp must also provide an environment for business leadership. One of the goals of the La Frutera consortium is to pass on the management of the plantation to Pagcorp after 20 years, as Rose admitted that the plantation is under a Build-Operate-Transfer (BOT) arrangement with Datu Toto.

Anecdotes of former MILF leaders moving up the ranks as managers indicate that Muslims have business acumen if given the opportunity. However, it is also important to note that the current management acknowledges that most of its business concepts are Western, and as the eyes of the

world focus more on Islamic practice, the leadership is aware that the company is an emergent experiment in combined Western and Islamic management.

Measurement and reporting in corporate social responsibility (CSR) is also becoming a priority concern for La Frutera. In line with its bid to obtain ISO 14001 and 9002 certification, strict monitoring and reporting is being conducted in all areas. The HRD Manager acts as the Environmental Impact Assessment Auditor, and the plantation is also under the Philippine Environmental Impact Assessment law. *The Paglas/La Frutera banana plantation was the first to be certified in Asia by the Rainforest Alliance, a global certifying body that monitors the social and environmental impacts of the banana industry.*

8. So They Took a Hard Look into the Mirror...

Benchmarking the company's social and environmental expectations and accomplishments, Rose Sira suggested that marketing advantage (brand equity and product patronage) was not applicable to them as the company had a captured market with its exclusive buyer Chiquita Brands International. She noted that the company's approach to social and environmental responsibility had led to gains in government incentives, public issue advocacy and in reaching out to untargeted stakeholders. There were no apparent gains or losses in the trust of the community and in obtaining community support, public perceptions of the company and its social and environmental profile. Expectations were higher than actual results in a number of areas: the value chain, decision-making processes, corporate planning and issues management, product design, (local) government support, and replication by other entities. In some areas, there were minor losses in staff and line functions and employee and external party support.

Rose explained that many of these losses are due to the ongoing transition in La Frutera from rule by 'Datuism' to a western corporate one. Hiring and personnel decisions made by La Frutera are at times questioned by staff, especially those that had been personally selected by Datu Toto, or are his relatives. Neighboring communities became eager to develop their own enterprises, but in the process began pirating workers with "get rich quick schemes".

Local governments, though supportive of La Frutera, are at times politically opposed to the Paglas clan and therefore are unsupportive of some projects by the current mayor of Datu Paglas (Datu Toto's brother). These conditions pose unique challenges to La Frutera management and shareholders, who are active in the affairs of the plantation. Based on these results, Rose insists that the formation of La Frutera is still an act of volunteerism and not just an investment.

La Frutera Mission

To produce competitive quality bananas at the lowest possible cost through motivated human resources and environment-friendly technology.

Vision

La Frutera envisions a continuous and sustainable growth that will contribute to employment, livelihood and business opportunities thereby promoting employees and community well-being as well as regional peace and prosperity.

Values

**Results-focus
Countryside Development
Orientation
Cross-Cultural Consciousness
Customer Focus
Existence of Organisational Pride
High Regard on Cultural Dimensions
Change Orientation**

9. ...And Continued to Strive.

It is evident that early leadership (as well as Datuism) has engendered a sense of advocacy in each employee. The company had been successful in promoting business in the area, but it must also strive to meet the challenges arising not merely from the Christian/Muslim management dichotomy, but rather that of Western/Islamic principles. As far as business strategy is concerned, the foreign consortium's direction towards developing true Muslim business leadership shows that peacetime business can be as challenging as business in times of conflict. What is more important is that the company is addressing the underlying factors that allowed conflict to fester in the area and it is here that business creativity and problem solving will be most useful. The business case for social and environmental responsibility is very strong in Maguindanao, for the Datu Paglas experience shows that business acting as a leading advocate is the most effective way of creating peace.

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Endnotes

- ¹ The views expressed in this case study are those of the author and do not necessarily reflect those of the New Academy of Business, UNV or PBSP.
- ² Quoted in Manuzon (2002).
- ³ Datu (or Datuk) is an honorific title for Muslim chieftain or leader. It is commonly used in the Philippines, Malaysia and Indonesia.
- ⁴ Datu Toto Paglas III was nominated by Jaycees International (Sapporo, Japan) as one the World's Ten Outstanding People in 1999.
- ⁵ Based on five Japanese words that begin with 'S', the 5S Philosophy focuses on effective work place organisation and standardised work procedures. 5S aims to simplify the work environment, reduce waste and non-value activity while improving quality efficiency and safety.
- ⁶ Datuism is a system of traditional government, introduced in Cotabato in the later part of the 15th century by Shariff Kabunsuan, a Muslim missionary who later ruled Cotabato and with his descendants established the Sultanate of Mindanao. Under Datuism, the datu (or chief) is deemed to be the "dispenser and lawgiver of death." This system developed Muslim Mindanao culture and kept Muslims united in their struggles against foreigners. See: Notre Dame University (1995).