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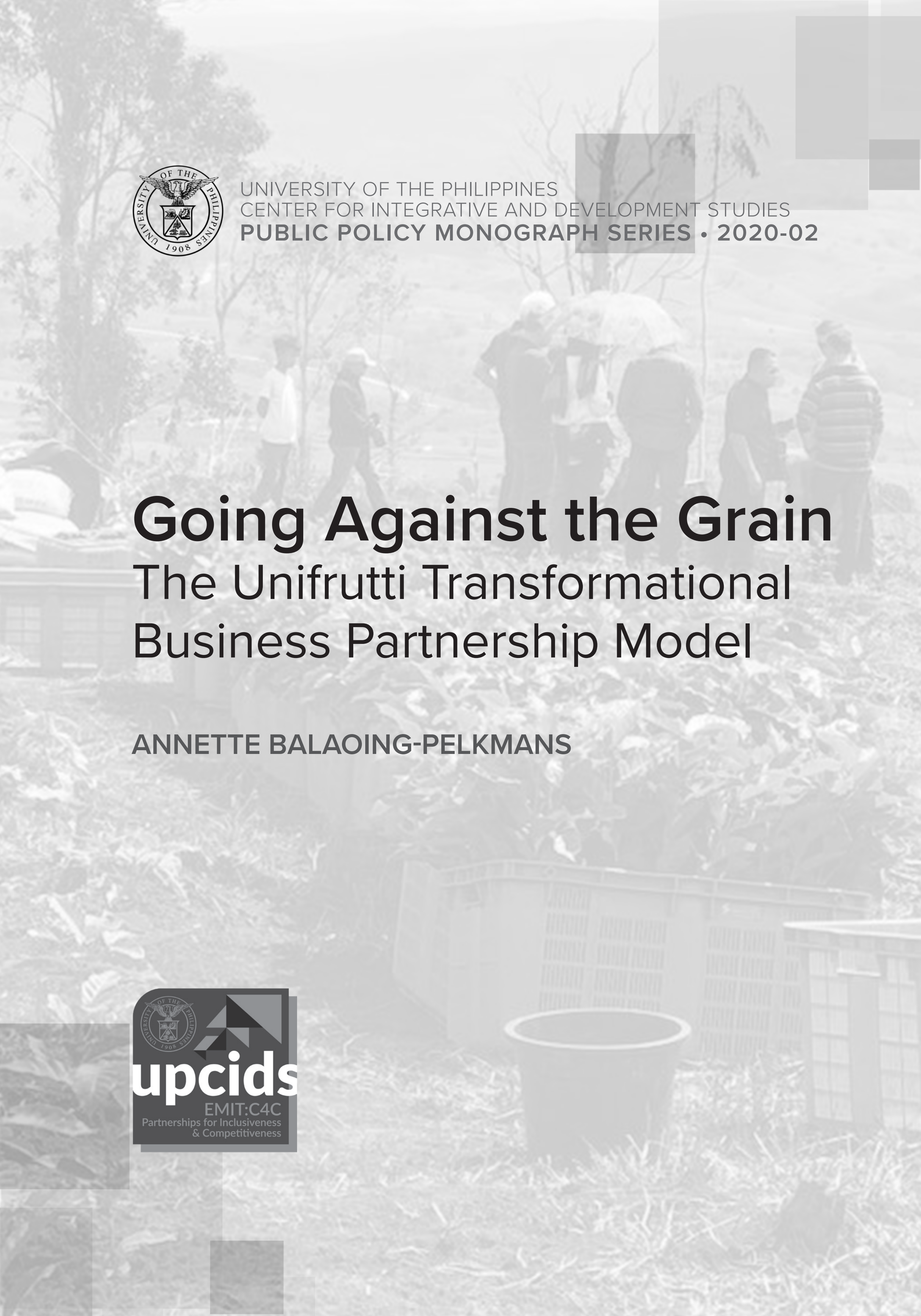
Going Against the Grain

The Unifrutti Transformational Business Partnership Model

ANNETTE BALAOING-PELKMANS



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1. A paradox upon paradox

The case study of Unifrutti Tropical Philippines Incorporated (UTPI) is one characterized by numerous paradoxes, set in a region, which is itself marked by deep contrasts. Mindanao, with its fertile land and ideal agricultural climate, generates over 40 percent of the country's food requirements (OECD 2014, 198), yet it is home to the country's poorest provinces. While the average number of households living under the poverty threshold has significantly fallen from 29.7 percent in 1991 to 16.1 percent in 2018,[1] the poverty incidence in the Autonomous Region in Muslim Mindanao (ARMM), has instead doubled from 26.9 percent to 55.4 percent (68 percent in Lanao del Sur) during the same period. What is therefore striking is not so much the extent of poverty in Mindanao *per se*, but that it exists against the backdrop of the region's abundant resources, and that it has further increased during a period of relatively high rate of economic growth in the Philippines. The war that has torn the region apart for half a century has not only claimed countless number of lives but has also drastically distorted the trajectory of its economic development.

The resilience and continued peaceful expansion of Unifrutti in Mindanao, particularly in the island's Muslim region, is therefore a puzzle, especially when similar large plantation companies such as Dole-Stanfilco, Del Monte, and Sumitomo have been suffering from major violent assaults (e.g., from the New People's Army (NPA))

[1] See Philippine Statistics Authority, "Proportion of Poor Filipinos Registered at 21.0 Percent in the First Semester of 2018," April 10, 2019, http://www.psa.gov.ph/poverty-press-releases/nid/138411.

in the last two decades. After venturing into the banana plantation project for the first time in Davao in 1992, Unifrutti established its first banana plantation at the heart of Muslim Mindanao in 1997, right in the bastion of the Moro Islamic Liberation Front (MILF). This was to forge a partnership with then young town mayor Datu Toto Paglas and establish La Frutera. Since 2000, further expansions were made in the Bangsamoro region, as well as in several sites populated by indigenous peoples' communities where the New People's Army (NPA) has been most active.[2]

The company has also been known to demonstrate sustainable and inclusive business practices despite the highly acrimonious land ownership and labour rights disputes, as well as environmental degradation in Mindanao. Most literature attempting to document the Philippine banana sector paint a negative picture of plantation agriculture (Krinks 1986; De los Reyes and Pelupessy 2009; Center for Trade Union and Human Rights and Nonoy Librado Development Foundation 2013). By now, a number of case studies have also been written on Unifrutti and La Frutera, including a recent work by the Food and Agriculture Organization (FAO) (Leonard et al. 2015). In such instances, an alternative narrative is made of the company—one which fosters an open and good relationship with its workers, landowners, growers, and the community in general, and puts a high premium on the preservation of the environment. Hineleban Foundation, an affiliate organization that was put up by the local principals of Unifrutti Group Philippines, was established to all the more consolidate efforts in restoring the rainforests of Mindanao. The approach taken is to first address the livelihood needs of indigenous peoples or the Lumads that inhabit these rainforests, in order to give them an alternative to cutting the trees that have been their only means of livelihood. In the process, the Lumads' traditional cultural role as custodians of the rainforest is restored as well. In various literature documenting the cases and extent of exploitation in Mindanao plantation agriculture, the case of Unifrutti-La Frutera has often been explicitly named as being an exception to the rule (Tuminez 2009; Habito 2012; Lockie et al. 2015).

This paper is part of an action research project which aims to document, analyse and support inclusive business models in agricultural value chains in the Philippines. The author traces the roots and evolution of the vision and practices of lead firms in the value chain in order to identify the main driving forces of inclusive business models in various product and geographical contexts. The problems found in Philippine agriculture are so complex and systemic, that it is worth understanding how successful models emerge even under the most difficult of circumstances. In the face of systemic or so-called "wicked" problems, the challenge is not so much the lack of resources,

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[2] Now on its 50th year, the NPA has been waging the longest-running communist insurgency in the world.

and sometimes not even the absence of political stability, but in the resilience of the status quo that has been solidified by decades of deep mistrust and prejudice. Breaking that status quo is no mean feat, so when inclusive models do breakthrough they attract and deserve closer scrutiny. Successful cases where inclusion and efficiency go hand in hand usually emerge from years of learning and experimentation. The lessons from this dynamic process are what the action research project hopes to harvest.

Unlike standard research methods, the design of the conceptual framework and the implementation of the research methodology were undertaken by a multidisciplinary team of academic researchers in full collaboration with the practitioners from the companies being studied. As much as possible, efforts were made to involve the principal stakeholders in the value chain through in-depth interviews and validation workshops. This paper captures what has been learned from the first phase of the ongoing action research, while the second loop will aim to develop more quantifiable indicators of inclusiveness and competitiveness. However, even a thorough quantitative measurement or estimate of impact could risk being highly inaccurate when numerous intangibles are at play. In the presence of so much complexity, relationships of variables are extremely difficult to capture and, much more, track in any empirical model. Understanding the context of these cases is key and is therefore the primary task in completing this volume.

This volume is organized into six sections. Since the Unifrutti narrative is set in the context of the Philippine banana industry, the succeeding section presents a brief overview of the challenges in the sector, taking into account the nature of the global value chain within which it is embedded into. Section 3 focuses on the evolution of the Unifrutti inclusive business model, called the Transformational Business Partnerships (TBP), with particular attention on the milestones that triggered the major changes in company vision and practice. Section 4 is devoted to the newly established Under (One) God for Peace (UGP), which currently owns La Frutera and is geared towards investments in the Bangsamoro region. Section 5 analyses the main driving forces of the Unifrutti–La Frutera–UGP model; and the final section summarizes and concludes the volume.

2. The banana global value chain and the Philippine banana sector

Being inclusive is often regarded as a virtue and as such explained by the inherent good nature and will of those that steer the organization of a company. The corollary view is that those business models, which lead to the marginalization of the poor, are largely borne out of “corporate greed.” A more objective analysis, however, begins from an understanding of the context that influences the design of business models, and then proceeds to identify critical triggers or forces that determine the choice of either a standard or inclusive business trajectory.

Situations characterized by market, institutional and coordination failures, tend to worsen through time because of the cumulative effects of countless piece-meal decisions, which may be rational when appraised individually, but adverse when viewed collectively. Problems evolve to become systemic when the complexity of these problems lead to the "tragedy of the commons," or the inability (i.e., "paralysis") of individual stakeholders to act and invest in possible solutions. In cases where government or other institutional actors do take an initiative to search for solutions, the systemic nature of problems could still work against them, that is, if interventions address only certain symptoms or aspects, there is no guarantee that such partial measures would lead to an improvement of the welfare of the community. In fact, the theory of the 'second-best', suggests that society might be worse-off since scarce resources were spent on reforms that might later on be reversed or neutralized by other inter-related problems that were left unresolved.

Figure 1 (below) illustrates the systemic problems in Philippine smallholder agriculture, where market, government and civic failures are inter-linked. We focus on the outcomes for the smallholder household, who experiences poverty both as producers earning subsistence incomes, and as consumers confronted with higher prices of goods. The poverty trap in this model is driven, among others, by the lack of incentives to invest on long-run growth. In the banana sector, for instance, with the implementation of the Comprehensive Agrarian Reform Program (CARP) in 1988,

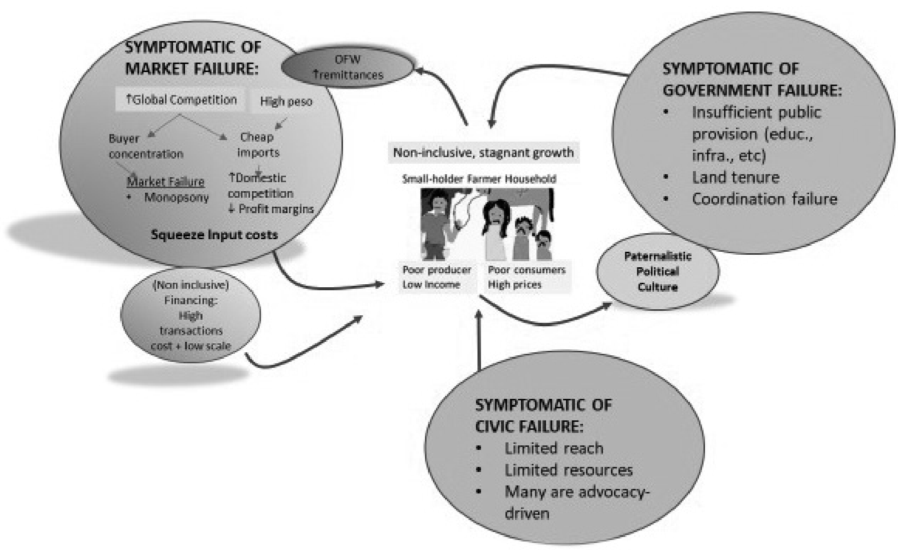

FIGURE 1 • Systemic problems in Philippine smallholder agriculture smallholders were expected to experience a significant improvement in their standard of living. The assumption was that land ownership would be enough of a powerful incentive for farmers to invest so as to increase their productivity. But in reality, addressing the low capacities of farmers as production managers and negotiators with big buyer companies would require cooperation between government, financing institutions, companies and civic groups in order to deliver the infrastructure, credit, training, and and organizing, as well as other public services and regulations that will address the weak bargaining positions of farmers. In the absence of these interventions, smallholders, as well as organizations and companies directly engaged with them, face high risk. In the absence of coordination, all actors turn to short-run strategies, which aim to maximize individual immediate gains with the least amount of cost.[3]

There are market failures as well, both in the local and global markets. That the global banana sector is being driven by just a handful of firms is largely due to the heightened competition to win market shares by driving down the cost of production, marketing, and distribution. Such a race towards cost efficiency meant that scale economies have become ever more important, and only those who are big enough manage to ride in the wave of cost competitiveness, higher profits and greater investments, cumulatively leading to even more scale. The pressure to expand and amass scale is now even more acute given the growing power of global buyers such as big supermarket chains. Regular price wars to attract end consumers leads to dwindling profit margins for producers, which in turn heightens the pressure to lower costs further upstream in the value chain. One outcome is the increasing power of big retailers vis-à-vis multinational producers. As Figure 2 (on next page) shows, the shares of the five largest lead firms in global banana exports, namely Chiquita, Del Monte, Dole, Fyffes, and Noboa, have dropped sharply from around 70% in 2002 to just 44% in 2013 (FAO 2014).

There are several factors explaining the oligopolistic structure of the global market for bananas that also accounts for the dominance of few big lead firms in the Philippines. First, the perishable nature of the product creates huge premium for transport speed and efficiency. Investments in shipping, cold storage and distribution networks are huge and lumpy, translating into significant barriers to entry. To cover these investments, the scale of operations must be big enough, thus generating cost efficiencies and competitive strength, which further drive down the number of players in the industry. Second, most exports are destined for developed country markets

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[3] This is the so-called *prisoners' dilemma*, a popular concept in game theory where two members of a criminal gang are independently offered freedom in exchange for testifying against the other. Given the chance to communicate, the gang members would surely have opted to keep silent. However, in a non-cooperative setting, both will assume that the other will act according to self-interest and squeal in order to be set free. The result is that both squeal and get convicted.

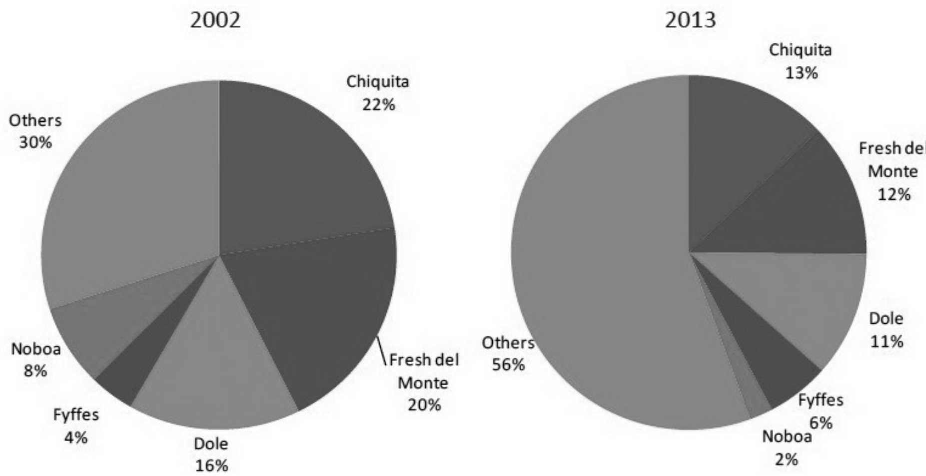

FIGURE 2 • Market shares of largest global lead firms in banana exports, by volume (Sources: FAO 2003; FAO 2014)

with strict sanitary and phytosanitary standards (SPS) and overall demand for high quality products. The know-how and technology to meet these market requirements are not readily accessible to new entrants. Third, the regulatory failures or lack of institutions to address the market failures in the industry, create an institutional void, which provide risks but also opportunities, especially to those with ample resources and power in the chain. Transfer pricing, for instance, allow companies to declare lower taxable incomes in high tax location by building up costs (e.g., payments for intellectual property, brands, logos, marketing, insurance and finance expertise) in their subsidiaries spread in various countries. Weak enforcement of land tenure rights, and/or outright corruption, also eases the cost of land consolidation, often to the detriment of thousands of poor farmers. Persistent lack or under provision of public goods ensures that rents accrue to those with private access to roads, ports, and research and development (R&D) and standard certification facilities.

The end results in sectors and countries characterized by extensive market failures are low level of efficiency and productivity, high incidence of poverty, and environmental decay due to inequalities generated by the system. According to some studies, farmers earn USD 0.01 cent per dollar worth of bananas purchased by the end consumer (Morazán 2010), while the distribution of gains between farmers and intermediaries is around 35% to 65% (BASIC 2014). This demonstrates how business models in the context of failed markets could lead to the marginalization of the weakest participants in the value chain.

The Philippine banana sector therefore mirrors the features, constraints, and market failures found in the global value chain. Table 1 (on next page) reports the firm concentration of the industry based on export data from 1991–2012. While the number of exporting firms has increased by more than half in the period of 2008–2012 (709 firms) compared to 1991–1998 (331 firms), the share of the top three firms has increased from 48% to 51% during the same period. This makes the Philippine market more concentrated compared to its closest competitor, Ecuador, where the top ten firms account for almost 50% of their total exports (FAO 2014).

TABLE 1 • Firm concentration of the Philippine banana sector, 1991–2012

	1991–1998	2008–2012	1991–2012
Total firms	331	709	1146
Top 3	48%	51%	41%
Top 1%	48%	63%	63%
Top 10%	93%	93%	95%

Sources: Author's calculation based on Philippine Statistics Authority (PSA) data

The behavior of local lead supplier firms in the national banana market is influenced by their role and position in the Global Value Chain, as well as by the prevalent governance structures as depicted by Figure 3 (on next page). In Gereffi, Humphrey, and Sturgeon (2005), the choice of value chain governance is determined by three main factors: (1) the complexity of transactions, which requires greater coordination among producers linked in a network; (2) the codifiability of transactions or the ease with which complex information can be codified and exchanged; and (3) the competence of suppliers, particularly, the ability to receive complex information and implement instructions from buyers. The nature of the banana industry, which requires high levels of coordination, especially once bananas are cut, necessitate stronger forms of governance than the arms-length transactions of markets.[4] When suppliers from local lead firms all the way to the individual farmer growers or cooperatives possess high competencies, then each can take full responsibility for fulfilling the roles assigned to them in the value chain. Such modular form of governance describes common market transactions, requiring the least amount of explicit coordination and where the distribution of gains is more equal due to less asymmetry in bargaining positions among players.

Relational governance pattern is chosen when there is mutual dependence between suppliers because of the complementarity of their assets. Relationship and

[4] Bananas must reach the cold storage within 24 hours once harvested from the trees to prevent ripening and loss of quality.

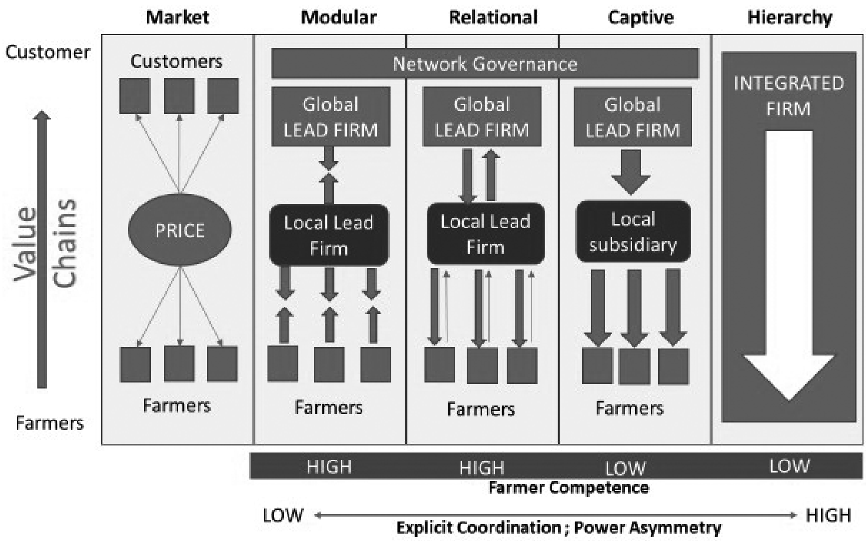

FIGURE 3 • Global value chain governance
(Source: Gereffi, Humphrey, and Sturgeon 2005, 89; with modifications by author)

trust-building are essential because competitiveness and survival depend on each partner being able to harness and maximize their potentials, especially in the long-run. Interdependencies among producers result to a more equitable sharing of gains in the value chain. With *captive* governance, however, weaker suppliers (i.e., those with lower competencies) are dependent on lead firms, and this dependence makes the cost of switching to other buyers prohibitive, thus locking them in that chain. High degree of monitoring and control must be exercised by lead firms in order to ensure stability and quality of supply, and power asymmetry is high in favour of lead firms. Finally, *hierarchical* governance solves the coordination problem within a value chain by internalizing all the transactions as a vertically integrated firm.

The analysis of Gereffi et. al. (2005), however, is largely aimed at understanding the relationships between global lead firms and local supplier firms, while the relationship of the latter with more upstream producers, such as smallholders, is not as amply discussed. We therefore modify the model in order to capture the governance structure of the national markets, concentrating on the relational and captive forms of network governance patterns. In Figure 4 (on next page), regardless of the kind of governance pattern between the global and local firms, the latter may have a relational, captive, or hierarchical relationship with producers depending on the competencies of these farmer growers.

This is crucial in the discussion of inclusive business models since the governance structure would determine the opportunities of farmers to capture more of the value created in the chain. In the long-run, relational and modular governance patterns imply that market failures have been reduced, thereby making the participation of small producers in the value chain more beneficial and meaningful. When markets and institutions function well, in fact, the likelihood that relational and modular governance structures will dominate increases. Whether value chains characterized by a captive or hierarchical mode of governance will be inclusive or not depends on how lead firms use their power to eventually capacitate farmers and significantly increase their incomes. Under relational and modular value chains, inclusion is almost guaranteed by the fact that smallholders possess the skills and assets that make them less dependent on their lead firm partners. When value chains are instead captive and hierarchical, lead firms, together with other social partners in and outside the chain, must jointly commit to address the market and institutional failures in order to lift smallholders out of poverty. Greater smallholder capabilities and productivity, in turn, eventually redounds to lower cost of monitoring and greater benefits in terms of security and reliability of supply. Not only does continued dependence on local lead firms lead to higher costs in the long-run, but power asymmetries and the perceived unequal distribution of rewards also result in acrimonious conflicts, which threaten the sustainability of the value chain.

Basic economics states that the better functioning of markets, that is, broader access to information and greater balance of power among actors with complementary strengths, leads to higher productivity, greater competitiveness of the entire value chain, and higher incomes for farmers. In an inclusive business model, positive relationships

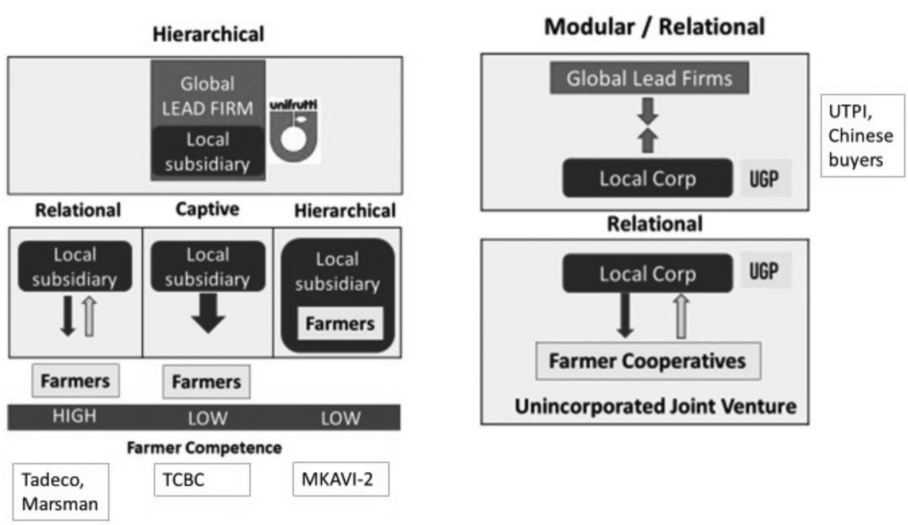

FIGURE 4 • Network governance patterns in banana global value chains
(Source: Author's own modifications on Gereffi, Humphrey, and Sturgeon (2005) model)

between local lead firms and farmers fill the institutional voids caused by market and coordination failures, with innovative and mutually-beneficial arrangements. More importantly, powerful incentives emerge for smallholders to invest on their capabilities and on measures to increase their long-run productivity. The more that individual players are able to take full responsibility for the tasks assigned to them in the value chain (which also implies investing on their capacities) the more efficient production becomes, and the overall output increases.

In the Philippine banana export sector, hierarchical and captive governance patterns have largely been the norm. When the Comprehensive Agrarian Reform Program (CARP) was eventually implemented in the plantation sectors in 1998, land ownership was turned over to thousands of smallholder farmers, who received around one hectare of land each. To preserve the viability of the industry (which is dependent on scale economies), the government implemented new regulatory measures to address the fragmentation of the land, namely the "*lease-back*" system. Under the so-called Agribusiness Venture Agreement (AVA), companies are allowed to continue operating the plantations while paying the now-landowner farmers annual rent, thereby transforming companies and farmers who are organized as cooperatives, into joint venture partners.

With the exception of the Tagum Development Corporation (TADECO), which was able to access a total of 6,628 hectares of contiguous land for its principal plantation, companies are constrained to own 1,500 hectares of land each. The introduction of agrarian reform meant that local firms would have to negotiate and partner with farmers' cooperatives, which have around 200 to 500 members, and who, in most cases, were previous farm laborers employed by the companies themselves. Because farmers would be negotiating in a position of weakness, the law provides guidelines, and supposedly strict supervision and monitoring by the Department of Agrarian Reform (DAR). However, it was only recently, in 2011, that the DAR instituted a support programme for CARP beneficiaries to access legal services (Leonard et al. 2015).

The principal challenge faced by local lead firms was how to unbundle their vertically integrated production and shift from a hierarchical to a captive governance structure and find new ways to address the market failures inherent in the system. The question is how to give up ownership but maintain full control of the production processes in order not to endanger the level of quality and efficiency of operations, which are essential in maintaining their own downstream relationships with intermediaries and lead firms in the global value chain.

Farmers, on the other hand, faced a monumental challenge of collectively taking over the reins of their land, and assume tasks, such as contract negotiation and financial management, without any previous experience and with only the barest of educational preparation. Even their civil society partners such as labour union lawyers, were ill-equipped to help farmers negotiate agricultural prices and contracts, which were completely different from the collective bargaining agreements that they were more familiar with.

It was in this perfect cocktail of market and regulatory failures (e.g., information and power asymmetries, weak implementation of rules by government authorities, weak enforcement of land rights, under-provision of public goods that could help build up farmer capabilities, principal-agent dilemmas in an industry highly dependent on efficient coordination among actors within the supply chain) that contracts were negotiated and eventually inked in the late 1990s. The perishable nature of bananas as well as the running obligations with foreign buyers also meant that agreements on contracts and transitions must take place at the shortest possible time. Both local firms and farmers faced an existential problem, and the very short time perspective they faced trapped them into decisions that were rational in the short-term, but proved to be highly detrimental in the long-run.

History has shown that parties locked in a negotiation would tend to exploit the advantages of exercising whatever initial power they might possess. A situation where market failures are pervasive and government capacities to address them are weak, result to institutional voids that create opportunities for powerful actors to create and capture economic value (Martí and Mair 2009). This is true for not only for big firms in their dealings with poor farmers, but also for poor farmer landowners in their transactions with their even poorer help-outs or seasonal workers in their own fields. Without any intervention or effective coordination, allowing market mechanisms to work despite the prevalence of market failures, leads actors into a non-cooperative behaviour (purely driven by the aim to maximize their own individual outcomes), which then results to lower welfare for all. At the core of the systemic problems found in whatever context, lies the inability of individual persons, groups or institutions to overcome the collective action and catch-22 problems because short-term calculus of costs and benefits dominate and drive decisions.

The Philippine banana sector's own history, especially in the last two decades, has been marked by conflicts, sometimes violent, over what farmers perceive to be onerous and highly exploitative contracts, or what firms see as unreasonable demands by farmers and interference by external forces motivated by political aims. It has been the stage for a class struggle between big, rich capitalist firms and poor smallholders, which saw violent strikes, plantation sabotage, union-cooperative busting activities, and numerous attacks to life and property. This is not unique to the Philippines, as similar experiences have been reported in Latin American countries with a sizeable plantation sector.

The Unifrutti model, seen from this perspective, demonstrates a set of alternative outcomes resulting from a deliberate choice to uplift the lives of smallholders, and protect the environment while striving for efficiency and market profitability. However, as the narrative would show, the motivations that drove Unifrutti towards an alternative course of action gradually evolved by balancing their profit and social objectives. From the very start, they have been exposed to competitive forces, which compelled them to be cost-efficient and profit-oriented. At the same time, certain circumstances drove the company to prioritize values formation, which allowed an internal "conscience," or a sensitivity to the social challenges that surrounded the company. This is the powerful mix of motives that led the company and their partners to persevere in their chosen course of inclusion and sustainability. The fact that after 25 years of operations, Unifrutti is the only major company in the banana and pineapple sector that has not experienced any act of sabotage, attacks on their plantations, nor legal suits filed by workers, landowners, or the community in general, as had been the case of the other companies, is remarkable, especially when its biggest farms are located in the most conflict-ridden and highly culture-sensitive areas of Mindanao. This demonstrates that inclusive business models contain a coherent logic and approach to addressing market failures, and that institutional voids provide opportunities for new business arrangements that benefit all.

3. Unifrutti: Peaks and valleys towards inclusion

According to a 2008 UNDP report,[5] an inclusive business model is one that includes the poor and other marginalized sectors of society in a company's value chain on the demand side as clients and consumers, and/or on the supply side as producers, entrepreneurs or employees. The litmus test of inclusion, however, is whether or not such integration of the poor as producers and consumers eventually lifts them out of poverty.

The motivation needed to implement an inclusive business model may be intrinsic, extrinsic, or both. It may stem from an innate and clear sense of social responsibility, or a vision guided by fundamental moral and ethical principles. In some cases, however, the motives develop only gradually through time as firms see the need to make their business models inclusive in order to raise their overall productivity and profits in the longer-term.

However, even companies that have committed themselves to an inclusive model would still unknowingly espouse undesirable labour or environmental practices, only

[5] See United Nations Development Programme, *Creating Value for All: Strategies for Doing Business with the Poor* (New York, NY: UNDP, 2008), 2.

to be corrected after these have been exposed by their own workers or other external parties. Many, however, involuntarily adapt inclusive practices to address various societal pressures stemming from obligations to comply with mandatory standards. It may also be triggered by a need to enhance reputation (i.e., window-dressing) or to reduce reputational damage. As shown by van Tulder et al. (2014), the nature of a company's motivation determines the direction and ways in which its business model can evolve into one that is genuinely inclusive and sustainable.[6]

Based on the vision and mission of Unifrutti (see Box 1 on page 16), one can conclude that the company does possess an intrinsic intent to be inclusive. There is an explicit aim to address key societal challenges such as poverty, peace, and environmental protection, anchored on cultural sensitivity, while at the same time taking the interests of consumers and shareholders into account as well. Also explicit is the reference of being a "God-centered organization" and the goal of being "united as one family under One God." The family as a model of inclusion is quite an exacting one, but the sense of fraternity is inarguably a powerful intrinsic motivation for inclusion.

Mere aspirations do not automatically bring about inclusion, as mindsets and practices take time to evolve and be ingrained both within the company and its value chain. The aim of this section is therefore to chronicle and analyse the key milestones undergone by Unifrutti so as to understand the challenges faced by a company in its attempt to embark on an inclusive business model.

3.1 La Frutera: Where it all began

The De Nadai Group (DNG), owner of Unifrutti, decided to set up their own plantations in the Philippines in the early 1990s due to the unreliability of their Philippine suppliers, who were then increasingly shifting to the more lucrative Asian markets, particularly, Japan. This prodded them to establish their own plantations in the Philippines to secure a stable supply for the Middle East and also to expand to Japan and benefit from this booming market themselves.

In 1992, they established the Oriental Banana Export Company (ORIBANEX, later renamed Unifrutti Philippines Inc., then finally Unifrutti Tropical Philippines Inc.), with John Perrine as Chairman and Chief Executive Officer (CEO).[7] The company entered into joint ventures with two existing major players in the Mindanao banana export sector: with Marsman-Drysdale Agri Ventures, Inc. (MDAVI) and with

[6] Table 1 in the Annex illustrates the theoretical framework for tracing the trajectory of transitions towards an inclusive and sustainable business model.

[7] Oribanex was a joint venture between De Nadai (Italy); Abdullah Abbar & Ahmed Zainy Co. (Saudi Arabia).

BOX 1

Unifrutti Vision, Mission, and Core Values

Vision

We are stewards of God, involved in efficiently producing quality fresh fruits and vegetables;

We share the fruits of our lands with our communities and stakeholders;

We provide a better quality of life;

We contribute to the peace and development of our brother Muslims, Indigenous Peoples and Christians in Mindanao;

We preserve and restore the environment.

Mission and Core Values

We are a God-centered organization, united as One Family.

We uphold God's values of Love, Truthfulness, Trustworthiness, Discipline and Perseverance;

We want to be the preferred supplier of the best quality fruits and vegetables to the markets that we serve, adding value to our customers at a reasonable cost.

We are committed to improve the quality of life of our brother Muslims, Indigenous Peoples and Christians by pursuing agricultural activities in our lowland and highland farmers;

We will expand our investment presence in Bangsamoro, Mindanao to support our country's aspiration for lasting peace through economic development;

We will safeguard the interest of our shareholders by providing fair returns for their investment;

We will preserve and restore our environment by implementing reforestation and other enhancement measures to maintain the ideal micro-climates conducive for sustainable agricultural production.

Source: *UNILife* 1, no. 3, October–December 2016.

Lapanday Agricultural Development Corporation (LADC). A few years later, in 1996, Oribanex signed a joint venture agreement with Chiquita Brands International to enter the Japanese market under a 50-50 joint venture, creating the need for further expansion of banana production to serve this new market.

The land sourcing group of Oribanex identified potential expansion areas in the town of Buluan and Datu Paglas, Maguindanao inside the ARMM region—attractive both for its soil and water, and the legal window this could offer for Oribanex to expand with its own banana plantation. A 1973 law[8] was then in place limiting banana plantations to 26,250 hectares, fully allocated among five to six companies privileged by the government to have this total allocated area. This law essentially barred new companies from establishing their own plantations. The ARMM region, however, was exempted from this law among the concessions granted by the Philippine government in the course of several peace talks.

The roots of Unifrutti's model could thus first be traced back to this time in 1996, when the company first established its own banana plantation in the unlikeliest of places, at a former war zone in the heart of the Autonomous Region in Muslim Mindanao (ARMM). Unlikely, because it is a region that saw the fiercest battles since 1968, between government military troops and Muslim rebel groups, namely, the Moro National Liberation Front (MNLF), and thereafter its breakaway group, the Moro Islamic Liberation Front (MILF).

Despite the attraction of locating in the ARMM, Unifrutti Chairman and CEO Perrine was extremely hesitant, finding the risks of investing deep into the heart of Muslim insurgency to be too great. Based on various interviews with Perrine, many children of Christian families in the Philippines grew up with a distinct fear of dealing with Muslims or the so-called Moros. Perrine himself, who grew up and has lived in Mindanao for years, was no exception. Something truly extraordinary must have therefore transpired to spur Oribanex (Unifrutti) to eventually invest USD 27 million in 1997 (Php 2.3 billion in 2017 value) in order to create La Frutera Incorporated (LFI) in the 1,400 hectares of land in Buluan, Maguindanao, right at the former base of the Moro National Liberation Front (MNLF).[9]

The journey of Datu Ibrahim Pendatun "Toto" Paglas III from being a young mayor of Datu Paglas in 1988 entangled in a fierce cycle of violence and vengeance,

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[8] "Letter of Instruction No. 58," February 22, 1973, *Official Gazette*, https://www.officialgazette.gov.ph/1973/02/22/letter-of-instruction-no-58-s-1973/.

[9] The environs of Datu Paglas are ideal for plantations as they are endowed with rich clay loam soil, and the lands are irrigated and nourished by the flooding of both Alip River in the north and the Buluan River in the south of the town.

to a leader infused with the mission to pursue peace and the overall socio-economic development of his people, is not unremarkable. The turnaround of the erstwhile lowest category (sixth class) municipality of Datu Paglas from a no-man's land with no regular source of employment, to one that has attracted more than USD 100 million in private investments in one decade, is a sensational feat that has prompted numerous write-ups, including a 2002 front-page *Wall Street Journal* special "9-11 first anniversary feature." In addition, it has served as the catalyst for various case studies for management schools, notably the case study conducted by the National University of Singapore in 2009 detailing how Mr. Perrine got into a partnership with Paglas. Behind this success, however, is a tragic personal story of Datu Toto Paglas, who witnessed his home bombed twice; first by the military in the 1970s, which also led to the imprisonment of his father; and then in 1986, when a grenade was thrown into his home, instantly killing his two-year old brother and severely injuring his father, who died sometime after.[10] In 1991, another brother was murdered, driving his clan and community to expect Datu Paglas' call for vengeance. Instead, in an "epiphany," as he described it, Paglas realized that the practice of *rido* or clan feuds driven by vendetta, would only mean the perpetuation of war and violence. He welcomed a visiting delegation from a neighbouring town and agreed there had to be peace. Datu Paglas recalls over a beer at one of his favourite haunts, the Champagne Bar in the nearby city of Davao: "It was as if Allah was trying to tell me something: that the cycle of violence here would never end. This changed me."

This personal narrative is not a superfluous element in this study, in fact, it is essential in grasping the motives behind Datu Paglas' commitment to uplift the welfare of his people. It is crucial to know that he has always been aware and critical of the "glaring divide that separated the Muslim nobilities from the common families," and protested the norms where the leadership of the ruling clans put their interest over the most basic concerns of those in poverty (Tuminez 2009, 6). Datu Paglas had a natural affinity with the household help, drivers and bodyguards of his family, accentuated by his experience of living with his family's farm tenants when his father drove him away from home for having married a Christian woman when he was only seventeen. With the realization that the traditional way of leading the people was not working as it only worked for the elite Muslim families and the politicians, he set out to craft a different type of leadership that aimed to serve the people instead.[11]

He realized soon enough that peace will remain an abstract concept without development and the education of his people. His father's dream of transforming their

[10] "Personal History of Datu Ibrahim 'Toto' Pendatun Paglas III," Paglas Corporation, 2012, http://www.datupaglas.com/toto_history.html.

[11] http://www.totopaglas.com/totopaglas.html (inaccessible as of September 2020)

ravaged lands into an abundant plantation of cocoa, coffee, and rubber, helped him set a concrete agenda for action (de la Rosa and Abreu 2003, 36). With the blessings and guidance of his uncle, MILF's founding Chairman Hashim Salamat, he organized a consortium of neighbouring landowners, who together with his family, were able to consolidate a total of 1,400 hectares of land ready for agricultural development. The signing of the peace agreement between the Ramos government and the MNLF in 1996 likewise provided a window of opportunity to attract private investors without the ominous threat of active armed conflict in the region.[12]

It was in this setting that the fateful meeting between Datu Toto Paglas and John Perrine took place in 1996.[13] The stakes and risks were extremely high for both sides. For Datu Toto Paglas, it was an opportunity to demonstrate that private investments can thrive in a "non-viable" place like the ARMM, known not only for the Muslim insurgency, but for kidnappings and merciless political and tribal killings.[14] The entry of a major business consortium would be an enormous vote of confidence that could open the door for more investments, which in turn would usher in the development that can sustain the momentum for peace. The risks, on the other hand, lie on the fact that Unifrutti was a multinational firm embodying western culture and management practices. A clash of cultures and any perceived incidence of exploitation would only further reinforce deep-seated resentment and mistrust against western and Christian domination. For Unifrutti, access to vast fertile lands, abundant water resources and cheap labor, were reasons enough to consider Datu Toto Paglas' offer. On the other hand, the plantation could be transformed into a battlefield once intermittent fighting explodes into an all-out offensive.

In their first meeting, Perrine spoke honestly about his reservations. He said, "Datu, I also grew up in Mindanao. I grew up being told that you can never trust a Moro and the only good Moro is a dead Moro. So why should I trust you?"[15] That straightforward transparency came from the commitment to speak the truth at all times, following a deep spiritual conversion Perrine went through in 1992. Such a level of honesty was not without risk, however, given that the meeting took place right in the armed territory of Datu Paglas, and directed towards the Datu, whose authority

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[12] In 1996, the GRP–MNLF Peace Agreement was signed, while the GRP–MILF peace process only began in 1997 (Buendia 2004, 206).

[13] A common friend of Datu Toto Paglas and John Perrine named Roy Tungol was instrumental in brokering the meeting, as he vowed not to stop visiting Perrine until the latter agrees to meet with Datu Toto. Author's conversation with Ed Bullecer, November 24, 2017.

[14] Datu Paglas is within the area of MILF's Camp Rajamuda.

[15] ABS-CBN News, "Why Doing Business in Bangsamoro Areas Can Work" (Interview with John Perrine), May 19, 2015, https://news.abs-cbn.com/video/insights/05/19/15/why-doing-business-bangsamoro-areas-can-work.

in Moro culture is unassailable. One sign of displeasure from the Datu would have instantly posed a genuine threat for his Filipino-American visitor. Instead, such risky transparency triggered an equally forthright response from the Datu, “I will never ask for more than we have agreed. I will protect your company and your employees. I commit this to you by my blood.” That was the moment that Perrine “saw the heart of a man,” and “saw Datu Paglas not as a Muslim,” but as a man with such genuine commitment that he would want him by his side if he were ever in a life and death situation. He reached out, shook hands, saying, “We’re coming in.”

On the part of Datu Toto Paglas, the straightforward honesty of John Perrine was in contrast with the attitude of other Christians he had met, who would not dare openly express their thoughts and prejudices in front of him. Perrine’s straightforwardness to convey his deeply felt reservations inspired his trust instead.

That openness set the tone for the relationship between the two leaders that would jointly steer the direction of La Frutera. To further assure himself that a Christian investor would be welcome in MILF territory, Perrine asked to meet then-MILF Chairman Hashim Salamat in Camp Abubakr.[16] That encounter secured for Unifrutti an overall blanket of protection, giving the proposed plantation the status of a no-fighting zone, ensuring safety of its personnel and unhampered operations, and allowing safe passage for its trucks (Romualdez 2015).

Remarkably enough, in that four-hour meeting, which actually was originally set for an appointment of only 20 minutes, as was customary in the MILF camp, Perrine and Salamat spoke at length about God after Perrine caught the attention of Chairman Salamat by saying that he would not have been there if not for the “hands of Allah,” because of his deep-seated prejudice against Muslims. The long conversation gave both Perrine and Chairman Salamat a glimpse of each one’s values and principles. This then became the basis of a relationship of deep mutual respect, which explains Unifrutti’s resolve to further expand their presence in the Bangsamoro region in order to support the “aspiration for lasting peace through economic development.”[17]

A thorough understanding of each other’s interests was crucial as well. The willingness of both Datu Toto Paglas and Chairman Salamat to shield everyone in La Frutera from physical harm is premised on the conviction that there can be no peace without development. As Chairman Salamat stated: “We cannot have peace without development. So, we must protect your investment because if you succeed, maybe

[16] Chairman Hashim Salamat was Amir of the Bangsamoro Mujahideen and Chairman of the Moro Islamic Liberation Front (MILF). He was also the uncle of Datu Toto Paglas.

[17] http://now.minda.gov.ph/wp-content/uploads/2015/11/1st_MRBOC_TA_Unifrutti.pdf (inaccessible as of September 2020)

others will follow. If you fail, no one will ever come back." (Williams 2012, 259) Peace efforts between the government and armed insurgents were then underway, and the immediate concern of Chairman Salamat was that in the absence of viable livelihood prospects, returning rebels would be prone to resort to criminal actions (e.g., ransom, kidnapping, carnapping), which would eventually re-trigger war. Like Datu Toto Paglas, he also saw both the stakes of demonstrating that business activities can thrive in the region and the domino effect that this can foster. At the same time, he saw the risks that "no one would ever come back" in the event of La Frutera's failure. This understanding was so crucial that even later on, during the 2001 all-out war against the MILF under then President Joseph Estrada, Chairman Salamat declared the La Frutera area as a no-fight zone and not only withdrew his forces, but also encouraged the employees who were still active MILF fighters (comprising around 30% of total workforce) to not all pull out of the plantation in order to join the fight, as this would significantly disrupt the operations of La Frutera. This was repeated in 2003, during the all-out war under former President Gloria Macapagal-Arroyo. In all the years La Frutera's operations, the MILF has been consistent in the policy of ensuring the company's unhampered operations and has never asked the company for donations or revolutionary taxes. Even after the death of Chairman Salamat in 2003, this commitment was sustained by Chairman Murad Ebrahim, who affirmed that, "we need more projects like yours to be beacons of hope for our people."

However, there has been initial discontent among the small landowners who owned five hectares or less regarding the terms of the lease contracts with Unifrutti, which covered a period of 20 years. The Php 3,500 initial annual rental per hectare was less than half the going-rate in the regions of Davao, for instance. Some even compare it to what they could have earned with rice farming, which could fetch them as much as Php 32,000 annually (Concepcion et al. 2003). The fact that members of the community could voice out these concerns was at least an indicator of the participatory leadership style of Datu Toto, who then explained that to entice the investor partners to overcome their strong misgivings in locating in the ARMM, an equally strong incentive needed to be presented. Some analysts however saw a deeper economic perception of Toto Paglas who did not just consider the financial benefit to the landowners, but rather the overall economic implications of producing a high-value and intensive crop like Cavendish bananas. He also took into account the wages paid out on a per hectare basis by the plantation, calculated back in 1997, at about Php 75,000 per hectare per year thus should also be factored in as economic income of the land.

La Frutera became fully operational in 1998, and became the first banana plantation outside of the Davao region. Paglas Corporation (headed by Datu Toto

[18] Datu Ibrahim Toto Paglas III retreated to the private sector in 1998.

Paglas),[18] leased the land and handled manpower resources, Oribanex (led by John Perrine) represented the main investors that infused the initial USD 27 million worth of investments. Ultrex, led by Senen Bacani (former Secretary of the Department of Agriculture) was invited as a partner to handle the day-to-day management, while Unifrutti/Chiquita International/Abbar & Zainy in Saudi Arabia took charge of the marketing and final distribution of bananas. La Frutera itself was presided by Pedro Changco, Jr. (under Ultrex), who was formerly one of the landowners of Dole Philippines plantations. Fletcher and Ganchero (n.d.) and Tuminez (2009) chronicled the expansion of La Frutera in its early years. Export revenues doubled yearly from 2000 till 2003, when sales reached USD 35 million. The plantation initially started with 565 hectares in 1997, and further expanded to 1,100 hectares in 2002. There was a total of 273 contracts with landowners, most of them small, with ownership of five hectares and below. Research done by Concepcion et al. (2003) shows that there are only around four big landowners with 40 hectares and above, which included the Paglas family led by Toto Paglas who pledged their estate of around 600 hectares as the core production area.

3.2 First phase: La Frutera's initial difficult years

Such success did not come without a price, however. Convincing all of the 257 landowners to partner with Unifrutti was initially impossible, as most chose to adopt a wait-and-see stance before committing their land. This was the primary reason why Toto Paglas pledged their entire landholding first. Skeptics did not expect the plantation to last more than two to three years. Instead of directly using his power and authority as a Datu to convince the rest of his tribe, Datu Toto Paglas and his direct family took the first plunge to commit their land in order to demonstrate the viability of the new enterprise and the trustworthiness of their Christian partners.

The manner in which land for the plantation was consolidated eventually helped draw the support of the other landowners. Without investments and regular livelihood, most of the members of the communities were cash-strapped, compelling them to mortgage their land to the Land Bank of the Philippines, eventually ending up in foreclosures. Unifrutti advanced the payment of the land rentals in order for the landowners to repay their loans and reclaim their titles. Some families were able to redeem their lands as early as two years after the start of La Frutera through the annual deduction from the proceeds of the harvested bananas and the land rental. This convinced the rest of the landholders in the community to eventually include their properties as part of La Frutera.[19]

[19] Focus group discussion with leaders of La Frutera, April 29, 2018.

The transition from war to peace entailed a difficult shedding of deep prejudices as well as molding new practices different from those formed by tradition and years of living in a state of conflict. In fact, the whole endeavor faced the threat of failure less than a year after they broke ground on the new plantation.[20] Some of the workers would come to the fields with their guns, having been accustomed to be armed at all times. The La Frutera management tried to prohibit the practice, but instead, workers responded by asking their children to accompany them in the fields and hold their guns while they work. It took not only a strong reprimand by the Datu, but the example set by the Datu himself to move around the community without arms and bodyguards. Still, a full year passed before everyone was able to leave their guns behind. Eventually workers no longer felt the need for the guns and sold them.

The problem (and the many more that followed) was resolved not only through the mediation of Datu Paglas as the recognized leader of the Moro community, but through the triangular leadership of Ultrex, Oribanex and Paglas Corporation. There were numerous dimensions of the cultural divide that needed to be bridged so the close cooperation of the management (Ultrex), investors (Oribanex), and community (Paglas Corporation) was indispensable.[21] An innovative move was for Mr. Perrine to reposition one of the key leaders of Oribanex (Ed Bullecer) to be the point person handling human resource as part of Paglas Corporation. Bullecer was a Certified Public Accountant, formerly employed by a well-known Manila-based accountancy firm. The move was therefore viewed very positively and highly appreciated in the eyes of the community as it provided Datu Toto Paglas with a senior-level management assistance. Separating the management of labor by putting it under Paglas Corporation might have contained the tensions in the short-run, but it could also have reinforced the cultural divide between the company and the community. This is why the proactive measure of building a bridge in the form of an embedded manager in Paglas Corporation was so critical in changing the dynamics of the Muslim-Christian/corporate-traditional relationship.

Tensions still broke out, and in one occasion even made Datu Toto consider closing the plantation. There was one particular instance in 2002 when La Frutera decided to hire a human resources (HR) manager who was seen as insensitive and rather dictatorial. The farmer landowners staged a strike to protest this appointment. According to the interviewed workers present during that period, the La Frutera HR manager carried guns around him, sending a strong signal of mistrust. To make matters worse, such a “military approach” was accompanied by superior attitude,

[20] Ed Bullecer likened it to a “volcano that might erupt anytime” (Author’s interview, November 23, 2017).

[21] Even the language was a barrier between the supervisors that were predominantly from outside Datu Paglas and most of the field workers who only speak the Maguindawan dialect.

reminding everyone that "his will is everyone's command."[22] His manner of dismissing two supervisors was also seen as brash and contrary to the Moro culture. This was seen by the community as disrespecting the authority of their Datu.

However, the fact that there have been relationships built prompted a unique style of staging a strike. Instead of placards and aggressive chants, workers did not enter the work place for three days, and simply milled around the plantation in a peaceful and serene way. The lesson learned in this episode is that nurturing relationships is critical and requires full commitment and time. The conflict was resolved through the intermediation of Datu Toto with the landowners.

While there is no specific formula in developing the management practices of an inclusive business enterprise, the Unifrutti–La Frutera demonstrate the fundamental importance of communication and dialogue at all levels. The absence of accessible and reliable channels of communication would lead to a build-up of grievances, which are often caused unintentionally since they stem from initial ignorance of each other's cultural sensitivities.

The most difficult phase in establishing the enterprise was building-up the capabilities of the work force, which entailed close supervision and monitoring of laborers in a learning-by-doing training process. The La Frutera management initially employed plantation supervisors based on experience and education, largely sourcing from those outside the community. Since many of the rank and file were of "royal blood," supervisors of lesser lineage were unable to order these workers what to do. This proved to be one of the company's more difficult challenges through the years. At one point, Datu Toto said that although he would not want to interfere with the management of the plantation, he nonetheless requested if he could appoint one parcella supervisor.[23] He was therefore given the go-signal to appoint Abbie Puas, alias Commander Spider. An agritech technician was assigned by Unifrutti to accompany Commander Spider and inform him everything that has to be done daily, but it was he who gave the instructions. However, he disciplines like a commander, and would sometimes pull out a .45 caliber pistol on an erring worker. This did not go very well with the farm manager at that time, and eventually the corporate practice of appointing supervisors and managers on the basis of qualifications and merit was re-established.

Another pragmatic innovation is the introduction of the concept of a "proxy" worker, where the adult son is allowed to take over the work of a father that is

[22] According to interviewed workers, *"kung ano ang gusto niya, 'yun talaga"* (whatever he wants, that's it).

[23] A parcella supervisor is responsible for 50 hectares. Five parcella constitute one farm, which has one farm manager. Five farms, in turn, sum up to one plantation, with one plantation director.

indisposed (Fletcher and Ganchero n.d.). The motive is to ensure that families do not lose income when regular workers are unable to work. The only condition being that the proxy worker be properly trained.

According to Senen Bacani of Ultrex, workers were motivated through incentives rather than simple pay increases (Bacani 2007; Bacani and Coronel Ferrer 2014). Incentives were handed out on the basis of volume of output, quality and cost savings, with fifty percent of the savings given out to the workers on a yearly basis. The advantage of the incentive system is that it is accessible even to the lowest worker. The company slogan of not leaving any single person behind is therefore lived out through this practice. Datu Toto Paglas, however, warned against an individual bonus incentive system, which was seen as bringing shame to those who performed the same type of work but did not receive the same reward. It is a shame one bears before the community, which makes it all the more humiliating. The policy was therefore modified to that of a collective incentive, where bonuses are based on team performance.

The discipline/sanctions policy is another area where adjustments were made. In the beginning, a total of 12 absences would be cause for termination in La Frutera. Datu Toto Paglas, however, told the 312 workers who reached this limit to go and stay home and "learn the lesson," but without any reference to an impending termination. Datu Toto Paglas advanced the reasoning that everyone must be given another chance. In an area where no other source of employment was available, losing one's job will create a sense of desperation as he or she has lost everything and has therefore nothing more to lose (Williams 2012).

Since around 90 percent of the workers are Muslims, Friday was designated as a day of rest and prayer. Daily *salah*, or prayer times, are also considered as paid hours, and flexible working hours are allowed during the Ramadan. Furthermore, aside from the company-built Masjid, places of prayer are also provided primarily in the packing houses.

The fragility of relationships due to the cultural divide and the ever-present threat of the escalation of conflicts made the importance of inter-cultural and religious dialogue very clear. Even without the menace of war, discarding the prejudices borne out from a long history of animosity and overall isolation of one cultural group from the other, is a most challenging task. It is not surprising that the promotion of cultural sensitivity was a priority concern especially in the early years of La Frutera (Nuguid-Anden 2003).

Various workshops and seminars were held to understand the basic tenets of Islam and Christianity and explore the similarities that can serve as common point of reference. It helped that Datu Toto Paglas continuously affirmed his belief that "there was only one God, but called in different names," and that John Perrine, who himself has deep roots and convictions as a "follower of Jesus," took the initiative to read and understand the Qur'an. Even Chairman Salamat was instrumental in giving his fiat to pursue this highly sensitive process where cultural and religious taboos were being broken.

The Muslim Hope Foundation, whose Board and membership include both Christians and Muslims, was among those who supported this inter-religious dialogue. In that process, the reference to Jesus (Nabi Issa) in the Qur'an was examined. There it is written that Jesus was the word of God and that he was the spirit from God, born to Mary. Jesus' words in the Gospel can therefore be taken as originating from God/Allah himself. This became the reason to conclude that there is more basis to agree than to argue and that the teachings of Jesus can actually help develop values such as of love for neighbour, and other virtues deemed important by both Muslims and Christians alike.

It was likewise crucial to reach an understanding of the Maguindanao and Maranao cultures and its interdependence with Islam, as the distinctiveness of the Moro culture does not all stem from religious roots.

The volatile peace and order situation in ARMM was a given that no one in La Frutera could afford to lose sight of. That there were segments of the Moro population bent on more extreme behavior present risks that must be acknowledged and kept in mind in the selection of partners and workers, for instance. It has been and continues to be crucial that one is fully mindful of whether they are moderate or extremist in both tradition and beliefs (Williams 2012).

Still, the resilience of the La Frutera model was tested during the all-out war under President Joseph Estrada in 2000, and in 2003 under President Gloria Arroyo against the Moro Islamic Liberation Front. Although some workers did join the *jihad*, most of the former combatants-turned-employees of La Frutera decided to remain in the fields. As one of the workers recall, "I would rather stay put and work and provide income for my family."[24] The interesting note to this is that no less than the MILF Chairman Salamat discouraged the members who were workers of the plantation, from leaving their work to join the fight, reminding them that the plantation is the source of economic benefit to their families and the community in general.

Another test came in 2008, when Datu Toto Paglas suddenly died from sickness. The management of Paglas Corporation was jointly taken over by Datu Toto's siblings, agreeing among themselves to the succession of leadership by the next eldest sibling, Toy Paglas (erstwhile town mayor), and asking the investors to provide their support to

[24] Focus group discussion, La Frutera Inc. Main Office, May 1, 2018.

the decision. Recognizing that disagreements among siblings could happen, they also asked Mr. Perrine to assume the role of "elder among the family" on matters where guidance is needed, most particularly on plantation business matters. The absence of a strong leader could not but leave a void in La Frutera. It required more individuals in position of influence, (both from the Ultrex and) most primarily from Paglas Corporation side to exercise leadership, as well as increased mediation from (Oribanex) Unifrutti.

3.3 Second phase: Expansion in Bukidnon, replication of the La Frutera model, and recognition of importance of environmental stewardship

Expansion in Bukidnon

From 1998 to 2004, Unifrutti further expanded by establishing more plantations: first was the *Mt. Kitanglad Agri-Ventures Incorporated* (MKAVI-1) plantation, opened in 1999 in the Indigenous Peoples' community in Lantapan, Bukidnon; the Mt. Kalatungan Agri-Ventures Incorporated (MKAVI-2) in 2003, in Bumbaran, Lanao del Sur; and the Wao Development Corporation (WDC) in 2004, in Wao, also in Lanao del Sur.[25] The establishment of the MKAVI plantation was due to the decision of the De Nadai family (one of the principal investors of Unifrutti) to enter the premium Japanese market, which in turn necessitated a highland plantation. In 2000, with MKAVI in place, the De Nadai family became a major investor in Chiquita Japan Incorporated, and launched the Chiquita Precious brand.

The move to Bukidnon brought Unifrutti into another sphere of delicate engagement, as it entered the domain of some of the biggest Indigenous Tribes in Mindanao, and went deep into the heart of the communist insurgency. The issue of water, for instance, has been a source of contentious dispute between Unifrutti and the Talaandig tribe, which is the most dominant Indigenous Peoples (IP) in Lantapan. Mt. Kitanglad, which the Talaandig claim to be their sacred temple and ancestral home, is a critical watershed that irrigates the agricultural activities in the surrounding municipalities, including that of Unifrutti. The Indigenous People's Rights Act of 1997 (IPRA) and ARMM Tribal People's Rights Act of 2008, state that anyone who intends to perform whatever activity in the Lumad grounds must seek free, prior, and informed consent (FPIC) and secure certification from local authorities[26] to ensure that the affected indigenous tribes agreed with the proposed activity or project. While the

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[25] The MKAVI banana plantation covers 1,100 hectares of leased land and employs 1,528 people.

[26] This certification should be secured from the Office of Southern Cultural Communities (OSCC) for indigenous peoples (IPs) in Maguindanao, Lanao del Sur, Sulu, and Tawi-tawi and from the National Commission on Indigenous People (NCIP) for IPs in Basilan.

company was able to secure its water rights in 1999, the Talaandig took grave offence for the failure of the company to recognize the primacy of the tribe's customary rights. It certainly did not help that the amount of rainfall has been steadily decreasing since the early 1980s, leading to an overall water scarcity around the region.

In 2000, the animosity of the Talaandig tribe towards Unifrutti was further aggravated when the company cut an ancient *balete* (*ficus*) tree which was considered sacred by the tribe. When interviewed for this research, Bae Lisa Saway, wife of the Datu, spoke of a "cold war" against Unifrutti, also because they considered this incident to be the cause of the ensuing ill-health that they experienced. The silent war went on for over a decade, with several attempts by the tribe to disconnect the calibrated meters in the municipal waterworks, and cut off the principal arteries of Unifrutti'swater source.

There are conflicting accounts of whether or not the removal of the sacred *balete* tree was made knowing that this would grievously offend the Talaandig tribe. At least, it was evident that not all the management was aware of the fact; as one manager said with remorse, "I'm from here and I still made that mistake" (Leonard et al. 2015, 37). The issue was eventually resolved in 2012 when the head of the Talaandig tribe, Datu Migketay Victorino Saway and John Perrine had a dialogue that lasted for three days. It soon became apparent that the roots of the conflict go all the way into fundamental land claims surrounding Mt. Kitanglad itself. The Talaandig and Higaonon have a *unified claim* to Mt. Kitanglad as their ancestral homeland, while the eight municipalities around the Kitanglad Mountain Range in Bukidnon likewise assert their political jurisdiction or *municipal claim* over the area.[27] A profound institutional void is caused by these protracted land tenurial disputes, and an attempt to address these in passing would surely trivialize a problem of such fundamental importance. We therefore refer readers to Suminguit and Burton, (2008) who extensively discussed the complexities arising from these competing land claims.

The 18-hour meeting over three days between Datu Saway and John Perrine resulted in a historic reconciliation between the company and the tribe, leading to an agreement consisting of the annual payment of Php 1,000 per hectare for bananas and Php 500 pesos for pineapple in recognition of their "Native Title Rights" over the lands and resources of Mt. Kitanglad. Datu Saway then initiated the inclusion of the other six tribes covering three mountain ranges of Bukidnon to set an example for the other chieftains. The agreement was solemnly sealed by a Sacred Customary Compact,

[27] To top it all, the Department of the Environment and Natural Resources (DENR) is a claimant of control of Mt. Kitanglad due to their mandate to administer public land and protected areas. Mt. Kitanglad Range is considered as a nature reserve.

a ritual between Unifrutti and the Seven Tribes of Bukidnon in December 2012, and separately between Hineleban Foundation Inc. and the Seven Tribes of Bukidnon.

However, in the context of the on-going political land tenure disputes surrounding Mt. Kitanglad, such an informal and voluntary agreement is not without risks. In fact, immediately a year after, 41 tribal leaders filed a complaint before the National Commission on Indigenous Peoples (NCIP) seeking a temporary restraining order against the agreement between Unifrutti and the seven tribes represented by Datu Saway (Mindanews 2013). The excluded tribal leaders claimed that they were not consulted even if they considered their lands to be subjected to the agreement. The issue was amicably and quickly resolved through the personal assurance coming from Mr. Perrine that Unifrutti intended to fully submit themselves to an FPIC process according to the guidelines set by the IPRA law. All 41 tribal leaders subsequently joined the Sacred Customary Compact.

MKAVI-2: A new partnership model

The success of La Frutera, especially in its early years, helped cement the view among Unifrutti that there were real benefits in taking the risk and locating in the ARMM. However, when Unifrutti decided to source another high-land location for their expanding Japanese markets, they initially chose a site in Kalilangan, Bukidnon. It was through a stroke of serendipity that John Perrine was instead led 17 kilometers further west to Bumbaran, Lanao del Sur, right inside the ARMM region. The unique circumstances surrounding the establishment of Unifrutti's 2nd plantation in the conflict zone of ARMM, is chronicled in Box 2 (on page 30), as recounted by John Perrine in June 27, 2019.

Upon the realization that their original chosen site was so close to the border of the ARMM, the decision was swiftly made to explore an alternative location in Bumbaran. This could be seen as an irrational, if not a reckless move since Bumbaran itself was not particularly attractive, having no basic services such as water utilities and electricity, and being known as a site of MILF clashes with government forces. It was called the "killing fields," and in fact was the site of a massacre that killed 21 and injured nine Christian civilians in 2000.[28]

But La Frutera has then been operating for six to seven years and was demonstrating the benefits of locating even in the conflict areas of Mindanao. The relationship with leaders of the Moro community, particularly, Chairman Salamat of the MILF, has also

[28] United States Department of State, "U.S. Department of State Annual Report on International Religious Freedom for 2002—Philippines," October 7, 2002, https://www.refworld.org/docid/3da3f0802c.html.

BOX 2
The MKAVI-2 story: A shaft of light, a stroke of fate

Almost everyone in Amai Manabilang could still remember how it was to live in a 6th class municipality, with neither electricity nor running water to speak of. For it was just 16 years ago, in 2003, when the fate of this town in Lanao del Sur drastically changed with the establishment of a Unifrutti banana plantation. Bumbaran, as it was then called, was a war zone, where Muslims and Christians did not cross each other's territories and the only viable livelihood was logging.

It was therefore the unlikeliest of places for investors to locate. In fact, on that fateful day in 2003, John Perrine and his associates had intended to make a final inspection and sign a contract for a totally different location that they have found on the slope of Mt. Kalatungan, in the municipality of Kalilangan.

The heavens, as it turned out, literally pointed them to another piece of land instead. It was a cloudy day, and as John turned around to inspect the mountain slopes, the clouds parted just wide enough to let through a small but clear shaft of light. That beam of sunlight drew his attention and hit something that was shining white all the way across the opposite side of the mountain. He quickly asked his companions where that white spot was coming from. When he was told that it was Bumbaran, he was taken aback because he did not realize that they were so close to the boundary of Lanao del Sur. Seven years after setting foot in Datu Paglas, Unifrutti has then committed itself to invest inside the Autonomous Region in Muslim Mindanao, knowing that it has a role to play in building peace, and also convinced that there were ample benefits for investing there.

So, with Lanao being so close, it became quickly evident to John that there is where they needed to be. But he was a bit surprised when his associates reacted with panic in their eyes. For why would they be worried after having experienced the success of Datu Paglas? They replied that unlike Datu Paglas that was Maguindanao, Bumbaran was Maranao.

Unfazed, John took out his cell phone and called Datu Toto, who promptly promised to contact his friend, then Datu (now Sultan) Manabilang of Bumbaran (Ranao). On that very day, John traversed the extremely rough roads that took him up to the home of the Datu. He was welcomed by Datu Manabilang, who was already informed by Datu Toto about the plans John has intended to present. Datu Manabilang then made an expanding gesture of his arms towards the plains and told his visitor, "What do you want? You can have any land you want."

With Datu Toto as the go-between, the negotiations between Unifrutti and the leader of Bumbaran played out quickly and smoothly. In fact, after only a few weeks, John was back to inspect the first parcels of land for the plantation. What surprised him was the sheer number of flitches, or squared slabs of cut timber piled all throughout the land. It was then that he found out that the main livelihood of the people was logging and that Datu Manabilang's main business was a veneer plant using hard tropical wood.

John then went to meet Datu Manabilang and recounted to the Datu the unique circumstances that led him to Bumbaran. He spoke about how that shaft of sunlight on an otherwise cloudy day, shone on a white building that happened to be the Datu's very home. He said that if he had turned just a few seconds later, that shaft of light would have passed the house, and there would be nothing to see, no blinking reflection that would catch his eyes. So, if the clouds have not parted, if the sunlight did not shine through, if he had not turned just at that very moment, he would not even have known of Bumbaran.[1] John then said that it was evident that it was the hands of Allah that have brought him there because none of those events could have happened by chance. He then went on to say that the forest is the creation of Allah, meant to produce the rainfall that will irrigate the farmers' land, which in turn will produce food for everyone. All that is a blessing of Allah. So, he reasoned that the Datu cannot keep on destroying Allah's creation—the forest—which provides water for the farmers and for food production. John eventually said that the Datu must stop cutting trees. This was an extraordinary thing to ask for since the veneer plant was the Datu's main income source.

The Datu, seated with his elbows resting on both his thighs, looked down and sat still for five long minutes. Much later, the Datu himself

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[1] It is interesting that in the *Darangen*, a well-known Maranao folktale, Bumbaran is described as "Bumbaran a alongan"—a place where the sunlight first touches the earth (thanks to Datu Raj Ramos Balindong).

related to others what went on in his mind during those crucial moments. He thought, “I am the Datu. No one could ever tell me what I cannot do! And here is this guy coming in and telling me that I have to shut my business? This is my business!” Yet, the mention of Allah, and hearing of the extraordinary circumstances that led John to him, made it difficult to deny that what happened was truly beyond chance. Eventually his fear of Allah prevailed and he broke his silence with a question. “How long will it take you to employ the people for the plantation?,” he asked John. “Eighteen months,” John replied. Remarkably, the Datu decided, “Okay, over 18 months, I will transfer my men from logging to become workers in the plantation, and after 18 months, I will stop.” True enough, after 18 months the Datu closed his logging business. In fact, he took it one step further. He prevented logging trucks from passing through the roads of Bumbaran on their way to the main cities of Bukidnon and Cagayan de Oro, making life difficult for the other logging firms operating in the surrounding forests.

During that same fateful conversation, John also said that it is not that the Datu could never cut the trees but that it must be trees that were planted so that it is sustainable. Although John and the Datu never again mentioned or went back to that conversation after that day, the Datu, every year, during the anniversary of the establishment of the plantation, would not fail to remind John of his promise to help bring trees back to the forests, saying “don’t forget our trees, *ha*.” In 2005, the Datu closed his veneer plant to save the forests. For twelve years he patiently waited, until the day came during MKAVI’s foundation day of 2017, when he finally received the news from John that they were going to start a new coffee project on the 200 hectares of land in Amai Manabilang. This will then be followed by the planting of Caribbean pine trees in the same area.

The Datu, by closing a flourishing business proved to be a man of his word. He would have made more money through logging but opted to act on his realization that he was responsible to Allah to protect the forests and all the resources stemming from these. Datu Mastura Dalig Bagambang Manabilang was enthroned as the 6th Sultan of Ranao on the 30th of November 2013. During the enthronement rites, John Paul Perrine described Mayor Manabilang as “a man of his word, a man of rare integrity” who “always speaks the Truth” and has the “Courage to stand on the front line.”

Today, the Mt. Kalatungan Agri Ventures Incorporated, or MKAVI-2, is a thriving 540 hectares banana plantation, producing one of the most premium varieties of bananas for the Japanese market.

Photos by Bae Lydia Eclar Manabilang (taken in August 2018)

deepened throughout the years, and with this relationship, the commitment to help build peace through development.

The establishment of the Mt. Kalatungan Agri-Ventures Incorporated (MKAVI-2) in 2004 was a test of the replicability of the La Frutera model since the move entailed engaging with a totally different Moro tribe and culture, the Maranaos. The role of Datu Toto Paglas as a go-between was critical because of the massive cultural distance between the local community and a multinational subsidiary such as a Unifrutti. The community was deeply suspicious and word quickly circulated that the company was out to grab their land. The fact that one of the first activities of setting up the business was a survey of land ownership to determine title holders all the more fuelled the rumours of Unifrutti's supposedly sinister plans. Some people also warned about the company's Jewish links. There were also those that were highly skeptical that an investing company would ever be interested to locate in their region.

The selected leaders of the community were invited to visit La Frutera and were given the freedom to interview the people of Datu Paglas, from the field workers all the way to the supervisors. This was done without the presence of the company representatives in order to ensure that workers could speak freely. Sure enough, the visitors from Bumbaran were assured that Unifrutti was good for the people and that the livelihood from the plantation has markedly improved the overall welfare of the community. The fact that the people from Bumbaran could see first-hand the impact of the investments was a key trust-building measure at the initial phase of setting up MKAVI-2.[29]

It was also customary at that time that the local Datu would get 20 to 30 percent of the construction contract. Datu (now Sultan) Mastura Dalig Bagambang Manabilang asked for the same thing since it was then customary practice. John Perrine in 2003 asked Datu Toto to mediate and relay the message that the banana plantation was a private investment, and foreign investors will run away from such terms of contract. With Datu Toto Paglas as the go-between, the same arrangement as La Frutera was applied to Bumbaran. Although, no initial cut could be given, a number of the auxiliary services related to the establishment and operations of the plantation were assigned to Sultan Manabilang, thereby ensuring him of considerable income from the business venture.

During the first years, a series of difficult adjustments took place, not unlike those experienced in La Frutera. One of the first managers, Norberto "Jun" Isreal Jr. admitted to initially being apprehensive, since similar to the early years of La Frutera, some workers would come to the fields with their guns, which was a not only a symbol of stature, but a deeply ingrained practice as well.[30] The assigned farm manager by Unifrutti, Rodolfo "Daffy" Tulba, also remembered how some workers would even throw banana seedlings at him.

[29] Based on deep-interviews and focus group discussions with pioneer workers and supervisors of the MKAVI-2, Amai Manabilang, July 25–26, 2019.

[30] One worker spoke about not being able to sleep without his gun beside him.

Just on the third year of operation, in 2006, Sultan Manabilang approached John Perrine, and said, “I can’t stand it anymore! Your people are blaming all the problems on us, Maranaos—that we are lazy, dishonest. Just let me be the one. Trust me!” John affirmed his trust and turned over the management of MKAVI-2 to the Sultan. However, since the Sultan admittedly knew nothing about the production and care of bananas, Daffy Tulba was assigned as his assistant to ensure that the technical and productivity targets would be met. The rest of the Unifrutti management objected, convinced that it was a recipe for disaster. However, matters did start improving after the change. The difference under this arrangement was that when the Sultan spoke, everyone followed. He was the one who chose the supervisors and managers, and they then became his mouthpiece. From the point of view of workers, it helped that they were dealing with locals instead of outsiders from another culture. Since it was the first time for most of the workers to be employed by a company, the idea that they were receiving instructions directly from Sultan also helped assuage their initial fears.

Eventually, Sultan Manabilang came to trust Daffy Tulba to the point that the latter was appointed to be the extension of the Sultan. According to Tulba, to earn the respect of the workers, continuous communication was necessary. “The people must see that you are there to help, and it is important not to be taken over by neither fear nor anger,” he further explained. More and more supervisors were also being trained from the Moro community so that at present, there are only two remaining supervisors that are not from the community.

Quality and efficiency improved year after year up to the point that the labor efficiency was better than in MKAVI-1, also thanks to the lower wages in the ARMM. Today, MKAVI-2 is known in the Japanese market for one of the best quality bananas. The prejudice that the Moro was lazy, and the Maranao was even worse, was disproved. The MKAVI-2 and La Frutera experience demonstrated that the workers need to be managed according to their culture, and it is important that the authority emanates from the leader of their community, which is the Datu or Sultan.

There is an inherent mistrust on the Datu system for those perceiving it from the lens of standard (Western-based) norms of democracy and individual rights. Datuism is based on the notion of a benevolent leader who is the custodian and principal promoter of the common good. It has been subjected to much abuse, however, as acknowledged by Datu Toto Paglas himself. Nonetheless, the strong socio-cultural norm of datuism is a given that the managers of La Frutera has learnt to accept. Cultural sensitivity remains to be a most important principle as the company aims to balance the empowerment of the people with the more autocratic style of management of Datuism. The fact that both La Frutera and MKAVI-2 have the least supervisory problems among all the farms of Unifrutti[31] demonstrate the effectiveness of the system, if indeed the premise of a benevolent Datu is met.

Stewardship and environmental practices

One of Unifrutti's distinct characteristics today is its sound environmental practices. However, when Unifrutti first established its own plantation in Datu Paglas, care for the environment was not exactly a company priority. But the La Frutera plantation was bounded by two rivers, Alip and Buluan. Driving through Datu Paglas, one would not fail to notice vendors along the road displaying their daily catch of large *dalag* (mud fish) or fresh-water carp. It was obvious how important the rivers are for the people of Datu Paglas, and since fish are highly sensitive to chemicals, the risk of the plantation causing harm was immediately apparent. There is a well-known Muslim folklore that if someone killed a Muslim's chicken or duck accidentally, s/he would be asked not only to pay for the dead poultry, but also for the eggs in their belly and the future chicks and their eggs in the future (Peng 2012, 14). Worse, if someone in the community would get sick, and eventually die, this would somehow be attributed to the operations of the banana plantation, and it would be considered as blood death that must be avenged. The leaders of Unifrutti therefore realized that since the plantation is surrounded by these rivers, they will not be able to use any chemicals that will cause harm to the fish population. The company went to great lengths to ensure that the rivers were protected not because of any environmental principle but because they knew they would not be able to get away with whatever harm they would cause the community. They built a water reservoir inside the plantation and filled it with tilapia in order to gauge whether their fertilizing or pest control methods were adversely affecting the water. This meant that they quickly had to find alternatives to herbicides or any toxic chemicals for plant care. In the beginning, it was therefore more out of fear of repercussions that caused Unifrutti to adopt good environmental practices. It was only later on, when their orientation towards values progressed that the awareness of the company's role as stewards of God's creation likewise increased.

The importance placed by Chiquita, Unifrutti's main client in the Far East markets, on environmental and social responsibility also played an important role in the development of the Unifrutti's environmental policies. Since the 1990s, Chiquita has aimed to foster brand awareness, promoting the company's name as a model for high-quality bananas, and as the industry's leading corporate social responsibility (CSR) company (Van de Kasteele 1998). As early as 1992, Chiquita

[31] Paglas Corporation (Pagcorp), headed by Datu Toto Paglas himself, handled all the labor requirements of La Frutera. While supervisors were directly under La Frutera, all the rank and file workers are instead under Pagcorp.

Brands International Inc. (CBI) had a partnership with Rainforest Alliance (RA), which certified all of its owned banana plantations in Latin America in 2000 under their Better Banana Project. The Rainforest Alliance Certified seal is granted to farms, forests and businesses that fulfill rigorous environmental and social standards set by the Sustainable Agriculture Network (SAN), which is a coalition of the most prominent conservation groups promoting sustainability in agriculture. The standards cover the three pillars of sustainability, namely, social, economic, and environmental.[32] Since the 1990s, Chiquita has been requiring its suppliers to begin certifying against the SAN.

For Unifrutti, however, the initial attempts to acquire the RA certification were marked by a host of difficulties, which even led to a sharp decline in the performance of some of their farms. The RA certification was a strict requirement of Chiquita-Unifrutti Japan, so that failure to pass the auditing inspections meant that the fruits cannot be sold in Japan. Although Unifrutti has then already been implementing high environmental standards in their La Frutera farms, the lack of technical assistance in addressing the demands of the Rainforest external auditors led to significant problems. Unifrutti's local managers faced enormous pressure because failure to pass the audit meant that the RA auditors would have to return, with all the costs (plane fare and auditors fees) being shouldered by Unifrutti. Box 3 (on page 38) narrates the travails of successfully passing the certification process.

In 2003, the La Frutera plantation in Maguindanao for lowland farms and MKAVI-2 in Lanao del Sur for highland farms, were certified under the Rainforest Alliance's Better Banana Project (BBP), which was the first certified banana farm in Asia. This meant compliance to 12 good practice standards, including environmental management systems, equitable benefits, and fair working conditions. All banana farms directly managed by Unifrutti are now Rainforest Alliance-certified, with compliance rates reaching an overall score of 97.3 (based on environmental and social criteria) during the 2013 audit.

Another trigger came sometime in the early 2000, when Unifrutti officials in Bukidnon started to notice the increasing amount of silt every rainfall. Such soil erosion is surprising for a plantation located in an area with just a two percent slope. It soon became apparent that this was due to the herbicide used in the pineapple plantations around that region. Rainstorms could transport these soils into the rivers,

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[32] The SAN standards are built on the following principles of sustainable farming: biodiversity conservation; improved livelihoods and human wellbeing; natural resource conservation; and effective planning and farm management systems. For details, see Rainforest Alliance, "What Does Rainforest Alliance Certified Mean?," July 9, 2020, http://www.rainforest-alliance.org/faqs/what-does-rainforest-alliance-certified-mean.

BOX 3
The uphill battle for Rainforest Alliance certification*

Prior to the requirement to comply with the Rainforest Alliance standards, the La Frutera Plantation was already ISO 14000 (Environmental Management Systems) certified. But according to Edren Panti, one of Unifrutti's environmental manager at that time, the RA certification was more difficult because no training was provided, and communication with the auditors, who were mostly from Latin America, proved to be a challenge. Unlike the ISO certification, which can be attained even without a 100% compliance, RA auditors will fail a particular farm even with one infraction (e.g., wrong type of footwear). One security guard once set up a trap for tokay gecko (*tuko*), and upon seeing the said trap, the RA auditor thought that it was a hunting instrument. That was enough for the auditor to issue his customary 'ciao-ciao,' which meant that the farm has failed the audit.

Necessity is often said to be the mother of invention. Hence, the struggle to pass the Rainforest Alliance (RA) audit triggered the creativity of the environmental managers of Unifrutti. RA would send auditors of different nationalities (e.g., Costa Rica, Indonesia), and varying specializations (e.g., agronomists, foresters, engineers). The Unifrutti staff therefore decided to anticipate a host of questions in the audit since they never knew who and what aspects of the farm will be audited. A team of *'first five'* of selected workers were trained and stationed in strategic areas of the farms to meet the auditors, while those who felt less confident to answer were allowed to conveniently absent themselves during the audit. Even the inspection route of the auditors was carefully anticipated. The success of this strategy built the confidence of Unifrutti on their own ability to be proactive. The effort to attain a high level of preparedness, in fact, caused them to even over-shoot some of the standards set by RA. *"Kaya naman pala"* (We could do it after all), was the realization among Unifrutti's supervisors and workers.

Eventually, the high costs of sending foreign auditors to the Philippines led Rainforest Alliance to tap and train their own local Filipino auditors. Better communication between RA and Unifrutti, as well as the increased experience of managers and supervisors contributed to higher rates of compliance.

* The following was based on interviews made by the author with Edren Panti, Head-Corporate Environment Health and Safety and Engineering Group, and Francis Manayan, Environmental Management Manager, held on November 20, 2018 at Davao City.

harming marine life and freshwater fishes through the suspended silt in their native waters. While the drastic deforestation was also an aggravating factor, it is undeniable that the total exposure of the soil surface (as in the case of large scale land preparation) together with the use of herbicides that totally eliminates even the grass cover of the land surface, exposes the top soil to the battering effect of the rainfall and washes them off to nearby creeks then into the rivers, then ultimately to the sea coast. The adverse health impact, the loss of wetlands and other negative effects on the livelihood of the local fishing communities were once again cause for grave concern. As mentioned earlier, being identified as a principal source of these environmental problems could bring about serious security threats for the company as well.

In 2001, Unifrutti therefore began taking active measures to make production environmentally sound. They built carefully engineered catchment basins for run-off rainwater and the top soil they carry around the plantations. The use of strong chemical nematicides applied to banana roots was also banned, applying copious organic composts instead. The proven operational success of these natural interventions attracted the attention of various observers, especially from civil society. The Unifrutti pineapple project's unconventional strict policy of "no topsoil leaves the farm" was considered the gold standard in pineapple farming, which traditional practices have been found to lose easily 100 to 150 metric tons of top soil every year.

Since 2005, Unifrutti has been ISO 14001 certified. This entails compliance with environmental standards such as the curtailment of the use of toxic chemicals, pollution control, and the protection of the health and safety of workers. Chiquita-Unifrutti has also promoted the compliance of its farms to the Global G.A.P. (Good Agricultural Practice) which is another voluntary set of standards that ensure safe and sustainable agricultural practices. Table 2 (on the next page) illustrates the current set of principles governing UFH's environmental policies.

It is doubtful whether sound environmental practices would have been accorded such a high priority by Unifrutti if its motivation had been triggered by external

TABLE 2 • Unifrutti's Environmental Stewardship Commitment for Pineapple

Principles	Specific Practices
Don't allow soil to leave the farm.	Soil erosion control structures: Installation of check dams, collecting ditches, catch basins
	Cover cropping and vegetative buggers. Arrest, filter, mitigate silt-laden runoff with *Archais pintoi*, vetiver, etc., and perimeter buffer forests.
Don't allow runoff to gather volume and force.	Contour block layout of plantation. Maintain 2% maximum slope with contour block layout to limit water movement and velocity.
Allocate enough space for soil erosion control infrastructure.	Devote 20% of the far area for soil erosion control. Provide adequate space to absorb, trap, filter and arrest excessive runoff.
Don't poison the land and groundwater.	No nematicide, herbicide, fungicide, or insecticide. Avoid contamination of soil and surface ground water.

Source: PowerPoint presentation, Hineleban Foundation

factors alone. From the very beginning of La Frutera, the care for the environment has been one of the three basic principles of Datu Toto Paglas, with Chairman Salamat enjoining him to "be good to the people; protect the environment; and ensure the education of the children" (Williams 2010, 154). But it is in the further articulation of the company's vision that care for the environment occupied a decisively central place in the company's core values.

3.4 Third phase: Partnerships with ARB Cooperatives and articulation of company vision

Elsewhere in Mindanao, Unifrutti continued to expand by entering into new partnerships with Agrarian Reform Beneficiaries (ARBs) cooperatives and other individual small growers. This has become the main way of entry and expansion in the sector during a period when the Comprehensive Agrarian Reform Program (CARP) has fundamentally changed the ownership landscape of the plantation sector. One might consider Unifrutti to be in a favorable position of being an entrant (into new contracts) rather than an incumbent needing to drastically transform its operations while being under the pressure to fulfill its running obligations with their foreign buyers. Furthermore, Unifrutti's inclusive model facilitated the building of a more collaborative relationship with their smallholder partners.

The decade long transition (from 1998 to 2008) from large land holdings to smallholder ownership has been painful and has inflicted deep wounds of mistrust between large companies and farmer groups in the plantation sector of Mindanao. The dire need to continue operations by designing, negotiating, and implementing contracts as quickly as possible, and the unpreparedness of the farmers to adequately organize and learn the basic technical facets of the plantation industry proved to be a lethal combination resulting to hasty negotiations, as well as contracts that later on proved to be highly disadvantageous for farmers. Under the CARP regime, for instance, the status of landowner-farmers was transformed from that of being laborers earning a minimum wage and enjoying mandatory social benefits, to that of landowners with responsibility to reach operational targets, to purchase farm inputs and bear the full risks of crop damage due to climate, pests, and diseases.

In an ideal setting, this would have constituted the usual costs of doing business, and farmers in the long-run would reap the extra rewards coming from the increase value-added of exercising both the ownership and management of their own enterprise. The circumstances that farmers found themselves, however, were far from ideal. In fact, it was a situation where the basic market elements of price information and access to credit and insurance were absent. In the case of two large ARB cooperatives, for instance, their contracts allowed the company full freedom to set the price of both outputs and inputs. The company was also the principal source of lending for the inputs, whose main source was the company itself. The price set by the company for the bananas resulted to an income lower than what the farmers would have earned as plantation employees (and without the previous social benefits). Just a couple of years of operation, and these cooperatives were deep into debt, amounting to millions.[33]

Unifrutti's expansion through partnership with Agrarian Reform Beneficiary (ARB) Cooperatives began in February 2003, with their partnership with Kapalong Agrarian Reform Beneficiaries Multipurpose Cooperative (KARBEMCO), which was previously under the Andres M. Soriano Farming Corporation (AMSFC). When the ARB cooperative took over 220 out of the 513 hectares owned by AMSFC in September 20, 2002, they were required to pay Php 23 million for the standing banana crops in the awarded plantation. Then Unifrutti president Herminio Martin, entered into negotiations with KARBEMCO, offering to pay off 50 percent of the debt to AMSFC as part of the Unifrutti's capital expenditures, while the remaining half could be paid back by the ARB cooperative through staggered payments. In addition, Unifrutti offered a contract price of USD 2.75 per box compared to the USD 1.80 proposed by AMSFC.

[33] It is not surprising that the farmers would demand for a renegotiation of the contract, this time with a negotiated price for bananas. The company, however, insisted on honouring the contract which stated that there was to be no renegotiation within the 15-year life-span of the agreement. After an acrimonious battle, which lasted for two months, a new contract was signed which fixed the price at USD 2.10 per box of 13 kilograms.

Another major pursuit occurred in 2004 when Unifrutti bought out Marsman-Drysdale from its Nova Vista joint venture banana farm, and also bought out Lapanday from its Tortuga Valley Plantation Inc. joint venture banana farm—both located in the town of Mabini, Compostela Valley Province. Unifrutti then turned around the two plantations and later on voluntarily handed them over to the employees' cooperatives, both with a long-term 30-year repayment plan for the assets, and a long-term purchase contract, which has been continuously adjusted to reflect the realities of current costs and competitive market prices. The Department of Agrarian Reform has recognized these two plantations to be the only large commercial plantations of any crop that have been voluntarily turned over to their employee/land owner cooperatives without any compensation from Land Bank. UTPI agreed to accept a long-term agreement covering over 30 years for the payment of assets. Such agreement could only be reached if both parties have enough confidence that a good relationship based on trust and transparency could be maintained.

Vision-mission setting and values formation

The challenges posed by the complexities of the relationships within the company (i.e., Muslim-Christian, western-traditional, supervisors-workers, skilled-unskilled, tenured-contractual), as well as the predominant "macho" culture in the banana industry, presented difficult dilemmas that forced the leaders of the company to increasingly clarify what values they stood for. The values orientation of Unifrutti has therefore also evolved through time, triggered by external events as well as the internal spiritual conversion of some key leaders of the company.

The period of 1999 up to 2005 was critical, not only in establishing the company but also in building up its own unique corporate culture. Whether it be in the context of Davao where the headquarters was being established, in the Muslim region of La Frutera or in the new plantations in Bukidnon, it was inevitable that dominant practices and patterns of behavior would clash with the moral convictions that were also taking shape amongst the company's leaders.

In Davao, where the headquarters, as well as the central logistics operations were located, certain patterns of behavior emerged, which might have been considered normal in a male-dominated industry. After work foray to the local nightclubs, for instance, has become standard fare for foreign visitors and the accompanying Unifrutti staff.

In the Lantapan farm, workers were initially organized as a cooperative, but mismanagement and problems accumulated as mistrust developed, not only within the cooperative but between workers and management. Likewise, in La Frutera, prejudices and mistrust were deep-seated and the concept of work ethics still had to be instilled among farm workers.

All these were taking place amidst efforts to introduce values formation sessions, as well as more informal and voluntary initiatives for spiritual renewal (e.g., Bible studies). As early as 1999, regular values formation sessions in La Frutera were started, which have since been incorporated into regular working hours. One of the aims of these sessions was to deepen the understanding of the relationship between Islam and Christianity, as a means for the management and workforce to conduct their work according to the teachings of their respective Books, the Holy Qur'an and the Holy Bible and, in the case of the Indigenous People's communities, their mostly unwritten but deeply rooted and equally sacred, age-old traditions and belief in one great God in the sky over all, Magbabaya. This is highly important because deeply entrenched prejudices could seriously undermine the sustainability of the company. The sessions were also used for capability-training, addressing the inferiority complex of the tribal population, and empowering the (Muslim) personnel from within the locality to enable them to move up the ranks of the company.

In the company headquarters in Davao as well as in its other plantations, the decision to introduce regular values formation arose from the need to attain coherence between practice and the values or principles that the company's leadership is beginning to aspire for. This has been one of the recurring concerns of the company, which eventually led to the decision to explicitly define its vision and core values, as well as institute concrete measures to help the company "walk the talk."

Hence, in 2004, the leaders of Unifrutti came together to crystallize and articulate their vision for the company. The twin goals of profitability and sustainability characterize companies pursuing an inclusive business model. The vision of profitability is based on the balance of achieving value-added, best-quality fruits, and at the same time, cost-competitive production. Chiquita's goal is to be the global leader in their chosen quality niche, while Unifrutti aims to be the preferred supplier. As a publicly-listed company, Chiquita also signals the importance it places on fiscal prudence to its stakeholders. The priority given to social and environmental sustainability permeates the vision of all partner firms.

In the early version of La Frutera's mission, the emphasis on "promoting employees and community well-being, as well as regional peace and prosperity" was explicitly made. For Unifrutti, the vision of business as being a precursor of peace motivates not only the drive for profitability and expansion but also the advocacy for more companies to consider investing in Mindanao. As John Perrine himself said, "We cannot build peace alone."

Unifrutti openly declares itself to be God-centered, something that purely profit-driven enterprises rarely do. The vision of peace and multi-cultural harmony is in fact based on the belief that *we are stewards of God*, and that *we are One Family*. What drives the motivation to expand the sphere of inclusion and empathy, is the conviction that we are children of one Father and hence, brothers/sisters to one another.

The newly-crafted vision set the tone for Unifrutti's relationships with its Agrarian Reform Beneficiaries cooperative partners as well as with its workforce in their managed farms and company headquarters in Davao. As the following phases of Unifrutti's history show, however, the actualization of their vision was a gradual and difficult process that required consistent and intensive communication within the company and with its external growers. It also often required courage and willingness to go against standard practices in the industry.

The current organizational structure of Unifrutti reveals the importance given to values formation: a full department is dedicated to Corporate Values, with the head reporting directly to the company president. A total of 15 people employed are tasked to develop and facilitate the weekly values formation program for management and rank-and-file employees alike. The head of the corporate values department is also responsible for trainings and leadership seminar under the Human and Resource department, which is another indication that values formation is considered as a core concern by the company.

The whole process of building a company culture through regular values formation sessions has not been easy, however. The intricate links between values and religious convictions, for instance, sometimes led discussions towards the thorny area of religious doctrines. Being a multi-faith organization, it is not surprising that these would sometimes lead to frictions and mistrust. Discussion of religious dogmas are now therefore explicitly avoided, focusing instead on common values such as love of neighbor and how these are put into practice in their daily lives.

3.5 Fourth phase: Investment expansion and further development of the Unifrutti inclusive business model

A period of expansion began in 2005 following the acquisition of 50 percent of Chiquita Japan Inc. by Unifrutti's principal investors, the De Nadai Group. Unifrutti established its own USD 25-million port facility in Davao, providing opportunities for the company to increase its efficiency and contribute more value-added services for the entire value chain. However, not only the physical infrastructure was being developed, but the organizational and social infrastructure of the company as well, especially in the three areas of labor practices, management, and external policies.

Unifrutti's hiring policy is one of the areas where it stands out in the industry. While the industry's range of contractual workers is from 65 to 90 percent of the labor force, the opposite is true for Unifrutti, whose regular workers are a range of 75 to 82 percent of its total employment. The decision to pursue this policy was not straightforward

TABLE 3 • Comparison of vision and mission statements across Unifrutti partner companies*

	Chiquita	Unifrutti	La Frutera
Vision	Chiquita will be one of the most respected companies in the world, consistently delivering *sustainable, profitable growth* by committed, passionate and disciplined professionals while maintaining *high standards and conservative financial policies*. We are in this world to make it better by *improving lives*.	We are *stewards of God*, involved in efficiently producing *quality fresh fruits and vegetables*. We *share the fruits* of our lands, with our *communities and stakeholders*. We provide a *better quality of life*. We contribute to the *peace and development* of our brother Muslims, Indigenous People and Christians in Mindanao. We *preserve and restore the environment*.	To produce competitive *quality bananas at the lowest possible cost* through motivated *human resources and environment-friendly technology*.
Mission	To be a *consumer-driven global leader* of branded and *value-added produce*. We will win the hearts and smiles of the world's consumers by helping them enjoy *nutritional and healthy products*.	We are a *God-centered organization, united as One Family*. We want to be the *preferred supplier of best quality fruits and vegetables* to the markets we serve, *adding value* to our customers at a *reasonable cost*.	To produce *competitive quality bananas at the lowest possible cost* through motivated *human resources and environment-friendly technology*.

* Note: Italics are inserted by author to facilitate comparisons.

nor undisputed, however. In 2007, for instance, the workers of Unifrutti in MKAVI-1 mobilized themselves to demand for an end of short-term hiring. There was hesitation from the part of management given the obvious sharp rise in costs resulting from such a policy shift. But on the other hand, maintaining industrial peace, and therefore meeting the workers' demands and needs is clearly in the company's interests as well.

Leonard et al. (2015) recounted what seemed to be a decisive incident, when a worker travelled nine hours from another Unifrutti farm in Davao to personally meet John Perrine himself at his home in Bukidnon. As Chairman, John Perrine has made his contact number public to all employees, and even to the community in general, declaring that anyone is free to contact him. The worker recounted how his dismissal caused his children to drop out of school and the situation worsened to the point that he had no money to even buy food. The experience must have left a deep imprint on John Perrine. During an interview for this research, he said that the decision to shift to a policy of direct hiring and the regularization of the labour force "was not only a question of following the law, it was a question of humanity." From then on, the hiring policy is guided by the nature of the job: workers performing full time or non-seasonal tasks should be regularized.

The overtime policy was also revised in 2010, limiting weekly overtime to a maximum of 12 hours and averaging to two hours overtime per day. The seasonal nature of the plantation sector meant increased work load during harvest season. Limiting the overtime work of workers therefore has a direct impact on output as fruits not packed within the day are discarded. The frequency of overtime work, however, was taking a toll on workers' health. For working mothers, the impact on overall family welfare was also considerable. Priority given to workers' health over short-run output targets therefore dictated the company's shift of policy.

The same workers' health and safety concern also led to other measures to lighten the workload in the plantations. While the industry standard is around 60 packers for 200 hectares of land, in Unifrutti, the limit was raised to 70 to 80 packers per 100 hectares. In MKAVI-1, the ratio of workers to tilled land is 2.1 persons per hectare compared to the average ratio of 1.5 in other lowland banana corporate plantations. This is a direct consequence of the low-chemical farming policy of the farm, which necessitates relatively more labor for the alternative policy of manual weeding and greater fruit care (Leonard et al. 2015).

In most cases, wages are pegged above minimum wage levels. Moreover, various bonus incentives (e.g., for exceeding the daily quota of boxes packed, continuous work during peak periods) are given to further increase the take-home pay of workers. For the last six to eight years, a 14th month bonus, on top of the 13th month salary, has also been regularly extended (Leonard et al. 2012). In MKAVI-2 workers even have received 15th month pay for the past year.

Freedom of association is a general concern for the plantation sector, even worldwide. It is therefore worth noting that only one of the corporate farms is unionized,[34] even though union-busting is explicitly not a company policy. Seminars on workers' rights have been held upon the request of workers themselves. The industrial peace enjoyed by Unifrutti can certainly be explained by the overall good labor policies

[34] This farm was already unionized when it was acquired from Lapanday.

implemented by the company. The fact that it has not been sabotaged despite its firm policy of non-payment of the revolutionary taxes demanded by the National People's Army (NPA) is due to the widespread reputation of Unifrutti of going beyond the basic minimum labor standards set by the government and even by the NPA itself, along with the company's environmental practices that protect workers, surrounding communities, and the physical environment. However, culture also plays a role in the inhibition or ambivalence that workers might have in participating in labor union activities, which are sometimes seen as an act of disloyalty vis-à-vis the company. These sentiments are even stronger in communal cultures such as those of the Lumads and also in the Muslim communities, where the concept of anyone fighting for one's individual rights is not intrinsic in their tradition. Once again, it is the Datu that defends and promotes the collective rights of the community.

In the development of inclusive labor and management practices, having open channels of communication between top management and rank-and-file employees has been particularly critical. In 2012, the Values Reconciliation Board (VRB) was introduced to give workers, regardless of rank or task, a venue to raise any issue related to the employment conditions or relations within the company. Rank-and-file workers in each operational department select their own representatives to the VRB, and the spirit of the monthly meetings is not one of negotiation (hence, no lawyers are present), but rather a "family" discussion. It is a novel way to address or prevent internal conflicts, with workers actually being asked to review management policies and provide concrete ideas for improvements. No agenda is set for the meetings and anyone can voice their thoughts or concerns, including those related to supervisors' or managers' behavior in and outside of the work place that they see as inconsistent with the values of the company as explicitly declared in the Vision/Mission/Core Values statement. The company's Disciplinary Code and Policies were a product of VRB discussions that achieved a consensus of all employees. The process was not a negotiation between "management and employees," but rather a round table discussion. Various interviewed members compare it to a "family gathering" wherein talks continue until the family arrives at the same understanding of what was genuinely fair to all. The initiative underwent teething problems when some of the issues raised were perceived by the workers as being ignored or being only partially addressed. Some workers were also wary in voicing out their complaints for fear of whatever adverse effects this might cause on their working relationships or on the evaluation reports written by their supervisors. To help rank-and-file workers overcome such fear of retaliation, their supervisors and farm managers are not allowed in the sessions, and are likewise prohibited from inquiring what kind of issues are being raised (the latter is considered a form of intimidation and is a grave offense that could cause termination). The members of the VRB all have a direct line to the CEO of the company (i.e., his cell phone number has been provided to all employees), represented by top management in all the meetings, or is present when specifically requested by employees to attend a monthly meeting. This is to signal to everyone the importance of this process for the company. He particularly encouraged the company management to open themselves to employees' views and criticisms, as these will force them to be true to their mission and vision, and challenge them to live what they preach.

The policies adopted by Unifrutti with regards their external growers were innovative as well. Since a number of contracts between ARB cooperatives and exporting companies were set to expire in 2008, negotiations for contract extensions were initiated in 2007. The Foundation for Agrarian Reform Cooperatives in Mindanao (FARMCoop), which is one of the prominent non-profit organizations that have actively organized and supported farmers' cooperatives, have been instrumental in determining the negotiation stance of a number of ARB farmers cooperatives vis-à-vis the big local and foreign exporting companies headquartered in Davao. Having heard of the favorable working relationship of farmers with Unifrutti, Atty. Koronado Apuzen (FARMCoop's Executive Director) initiated talks with Unifrutti President, Herminio B. Martin for possible partnership. This led to several cooperatives under its fold to switch to Unifrutti as their principal buyer in 2008.[35]

There are at least two aspects of the partnership between company and growers that are most sensitive and cause most of the tension in the relationship. One is the product price and duration of the contract, and the other is the available window of negotiation and communication while the contract is in force. There is no shortage of examples of contracts revealing either too low a contract price or unduly long duration of contract, or both. But it was the lack of re-negotiation possibilities that often lead to the violent confrontations seen between farmers and companies, especially in the early 2000s.

In both aspects, Unifrutti has performed favorably. According to Atty. Apuzen, Unifrutti provided the most beneficial deal for farmers, consistently offering a higher contracted price per box. But it was the manner in which Unifrutti placed a premium on sustainable partnership anchored on lasting sound relationships rather than on the legality of contracts that made it an exception to the norm. The statements made by FarmCoop on this matter was verified time and time again by the various interviews with ARB cooperative farmer leaders. Unifrutti negotiators would regularly stress that the contract was a legal document that could be tucked away in the drawers as they

[35] The three cooperatives that entered into partnerships with Unifrutti are: the AMS Kapalong Agrarian Reform Beneficiaries Multipurpose Cooperative (AMSKARBEMCO), the Checkered Farms Agrarian Reform Beneficiaries Multi-Purpose Cooperatives, and the Tagnanan CARP Beneficiaries Cooperative (TCBC).

are not seen as a means to lock-in and exercise control. Contracts were regarded as the basis for and starting points of building long-term relationships. The stress was therefore not on the legality of the contract, but on the contract as "covenant" based on mutual trust.[36] In concrete terms, this meant that the terms of the contract are open for negotiation and that a review of prices can always be made when there are sharp changes in fuel prices, exchange rates and other production inputs. Communication works both ways, as farmers have also been open to listen, for instance, to the issue of banana quality as perceived by foreign buyers.

This does not imply, however, that everything was smooth sailing and that disagreements never arose. A particularly difficult negotiation, for instance, involved the eventual transfer of the plantation management in Compostela Valley from Unifrutti to the Tagnanan CARP Beneficiaries Cooperative (TCBC) itself. FARMCoop has been advocating for the implementation of the true spirit of the agrarian reform, which is to give farmers ownership and control of their lands in order to uplift the living conditions of their households, enabling them to lift themselves out of poverty. FARMCoop therefore took it as their mission not only to help ARB cooperatives to negotiate for the full control of banana plantations located in lands under CARP but also to empower and prepare ARB cooperatives for the responsible and efficient management of plantations. Assuming that the farmers' cooperative has the management capacity to run a plantation efficiently, the growership system where the company has full control of the land is not advantageous to farmers. Assuming an average annual yield of 3,000 boxes per hectare at the going rate of USD 5 per box, each farmer could earn a gross income of around Php 780,000 annually. Instead, income from a lease contract would yield around Php 40,000 per year, per hectare on the high side.

An agreement was eventually reached to fully transfer the management of the Tagnanan plantation over to TCBC. Roberto Sebastian, Jr., Unifrutti's External Head, said that looking back, one could observe that the productivity of the plantation was higher under the full control of the company. However, turning over the control of the plantation to farmers was consistent with the essence of land reform which is to allow farmers to benefit from their own land. He added that this was the trade-off that Unifrutti chose to make. In 2008, FARMCoop began the preparation of the farmers through capacity-building training, and the following year, on September

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[36] According to Atty. Apuzen (interview by author, November 23, 2017), that what makes Unifrutti different from other companies is that their contracts are not cast in stone. In the focus group discussion with TCBC cooperative leaders (conducted on November 22, 2017), mention was made about the legality of relationship with Unifrutti: *"Kahit anong problema, pag-usapan natin. Naka-*round table *kami*—no boss. *'Pag nag-usap, pantay"* (We can talk about any type of problems. We are seated in a round table where there is no boss. When we speak with each other, we are equals).

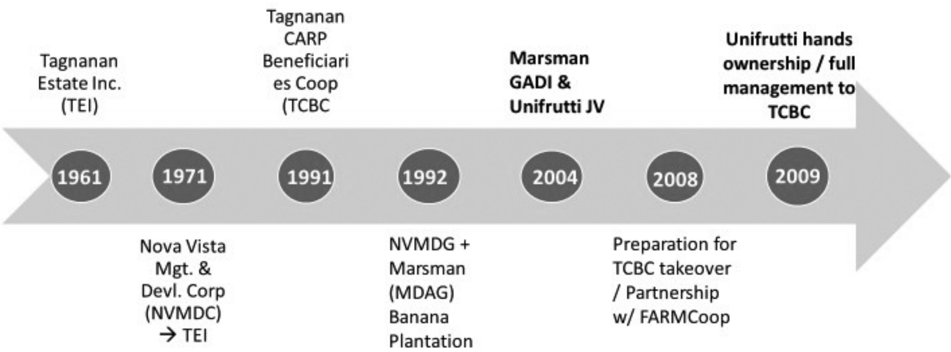

FIGURE 5 • Timeline of the TCBC
(Note: The NVMDC plantation, which was started in 1992, was the joint venture from the beginning between Unifrutti and MDAG. In 2004, Unifrutti bought out the interest of MDAG from NVMDC.)

7, the TCBC became the proud owners and managers of their own banana plantation.[37]

According to Unifrutti, the TCBC is one of their most productive and efficient partner ARB cooperatives. They attribute this to the quality of the leadership of TCBC, while the Board Members of the cooperative ascribe their success to the culture that was built during the long period of management by Marsman,[38] particularly under the leadership of its Founder George Drysdale Sr. and partner Roberto Sebastian, Sr., who also served as one-time Secretary of the Department of Agriculture. It is also evident that a positive factor has been the partnering relationship between Unifrutti and TCBC, which have been strengthened by open and regular communication and acts of mutual support especially in difficult times.

The vision, mission and core values espoused by TCBC reveal a strong aspiration to prove their capacity to maintain the productivity and financial stability of the

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[37] FARMCoop continues to provide a range of support services such as RsD, training, legal assistance, and contract review. In exchange, they receive Php 1 per box of banana produced.

[38] The Marsman Estate Plantation Inc (MEPI) was established in 1969 as a joint venture of the Marsman-Drysdale Group in the banana export industry. Based on interviews with TCBC officials (held on November 22, 2017), farmers were given responsibilities when they were still under the Marsman management, thereby honing their expertise in running a plantation.

plantation under their management. The promotion of values is also given a high priority, focusing on the core values of "transparency, commitment, blessing to others, and consistency." The cooperative has adopted the practice of the weekly values formation sessions, which, like that of Unifrutti, is Bible-based. It is interesting that the concept of positive reciprocity is reflected in the mission statement, which states, "TCBC uplifts its stakeholders' welfare by providing expanded quality services to all markets that we serve, ensuring customers' satisfaction." Inclusion from the producers' point of view meant taking into account the welfare of its consumers, which is Unifrutti and their end markets.

3.6 Fifth phase: Tipping points in Unifrutti's inclusive business model

The Unifrutti inclusive business model has been put to the test, especially in the last decade, when it faced various challenges due to natural disasters, outbreak of plant diseases, major organizational changes, and unfavorable developments in the company's key export markets.

The major investment on UTPI's own wharf introduced a pressure point in the company's business model. The typical demands to reduce lead time and wastage are made even more urgent by the need to efficiently fill-in the capacity of company vessels. The transition from renting a commercial port facility to the operation of its own wharf was not without of difficulties and challenges, what with more than 300 workers handling bananas destined for various markets, each with their own product specifications. There were four particular areas of concern: increasing number of contracts with growers, improving efficiency, specifically reducing the incidence of "miss-outs" (i.e., discrepancy between the amount of bananas received in the wharf, and actual amount loaded in vessels), improving safety, and addressing various regulatory issues.

These concerns were no different from those faced by other companies in the sector. However, the importance given to inclusion and sustainability meant that the approaches to address these issues would deviate from standard practices. During the initial years of the wharf, for instance, targets were often set by each division independently of each other. It was, as one supervisor recalled, like a contest that is won by the person with the loudest voice (*palakasan ng boses*). Eventually, a more collaborative process was developed, where targets were set collectively in so-called "tool-box" meetings, and information passed on more seamlessly from one shift to the next. In fact, importance is given on communication as a tool for cooperation instead of just a means to exercise control. Taking the time and effort to explain the motivation behind certain rules and instructions sends out the signal that each person's role is important.

It is also the company's policy to comply with government regulations and avoid the easy way out of these rules through corruption. In one instance, an unusual expense account linked to facilitating a government transaction was noticed. Because of this, strict instructions were issued by company management to follow all the bureaucratic steps demanded by government and resist any shortcuts through briberies, no matter how small and petty. Through time, the company developed such a reputation of not being susceptible to corruption that hardly any attempt was made by authorities to delay transactions just to entice grease money.

Sometime in 2016, however, this resolve was put to the test when following the law to the letter meant incurring a higher cost of operation. To maximize the capacity of the vessels, UTPI accommodated third party cargo into their private wharf for loading in their vessels. In previous years, the amount of co-loaded cargo was so trivial that it could pass within the threshold of what would be acceptable by the port authorities. However, in 2016, the cargo for co-loading significantly increased, accounting for about 30 percent of the vessel's capacity. Loading the cargo in the UTPI wharf would then be illegal since it is a private commercial port. The law requires that UTPI first transports the cargo of third-party agents to the Terminal Facilities and Services Corporation (TEFASCO) public commercial port, just 400 meters away from the UTPI wharf, and then load the cargo back to the UTPI ships, which consequently must dock in the public port. Such back and forth transport of bananas and movement of vessels would be so costly that the Board of UTPI then considered the option of not reporting the co-loading since the chances of being monitored was close to zero anyway. But when Rodrigo Duterte, previously the mayor of Davao, came into power as Philippine president in 2016, there were expectations that a severe crack down on illegal activities might soon take place. In fact, during the first month of Duterte's presidency the whole top management of the Philippine Ports Authority was replaced. So, this caused some worries in UTPI that their illegal practices would eventually be caught. At the same time, however, Alberto Bacani, then deputy COO of UTPI, mulled over what kind of message the company was sending out to their workforce. Here they were, a values-oriented company, and yet they were breaking the law. The considerable added costs of moving the vessels, berthing fees, and the like led to such resistance within the Board, that Bacani himself threatened to resign if the company will continue to contradict its own set of values. The move led to the expected increase in costs for UTPI, but it also caused a huge impact on the whole workforce. It demonstrated that the company was going to walk the talk despite the costs and hassle this decision would entail. Even some of the employees wondered why the third-party cargo could not just be loaded in their wharf since this has been their practice ever since. That was then an opportunity for the UTPI management to demonstrate the extent to which they were prepared to live up to the company values. Of course, the company also benefited from the sense of security that they were fully complying with the law.

One major upheaval in Unifrutti's history occurred in 2007, when internal in-fighting took place between the De Nadai Group, then headed by Giancarlo De Nadai, and the Abbar & Zainy investors from Saudi Arabia, which eventually led to the breakdown of the partnership in 2009. This ended the profitable division of labor between the De Nadai, with their fleet of five vessels, and Abbar & Zainy, who controlled the cold storage and ripening facilities in the Middle East. This proved damaging to the De Nadai business as it limited their core business to that of mere trading. The conflict penetrated deep within the De Nadai family itself as blame is passed on to those seen as being the cause of the conflict, and inevitably to the damage suffered by the family's enterprise. The family in-fighting festered all the way until 2017, finally ending with the collective retirement of the entire second generation of De Nadai stakeholders. Exhausted by the ten-year family saga, they turned over the control of the company to the nineteen family members of the third generation of De Nadai, of which, only one was actually working in the business.

The loss of Unifrutti's direct access to the Abbar & Zainy infrastructure that linked them to Saudi Arabian consumers, made the company more vulnerable to the impact of the instability of the Iranian market. Around that period, the United States further tightened the sanctions on the Iranian banks, making it difficult for Iranian buyers to transfer dollar-denominated payments to their foreign suppliers, even through indirect means. Since the Middle East comprised a significant share of UTPI revenues, the delay and uncertainties linked to Iranian payments triggered a crisis in the company, which in turn fueled fears of workforce retrenchment. Despite the commercial downturn, UTPI did not lay-off any of their workers, urging everyone instead to not only double their efforts to cut-down costs and increase productivity, but also to strengthen their collective prayers. Payments from Iran eventually did pull through, and UTPI experienced a period of financial recovery from 2010 up to 2012.

During the ten tumultuous years of 2007 to 2017, not one centavo was re-invested in the Philippine subsidiary of Unifrutti because of the De Nadai in-fighting. This is the same period that saw the worst El Niño in history, followed by La Niña. Plantations suffered as critical investments, for example, for the maintenance of a fully functioning irrigation system needed to weather these climactic shocks, were foregone.

The impact of climate change and the occurrence of plant diseases also triggered innovations in the company's inclusive business model. The fall in farm productivity resulting to devastation wrought by typhoons and pests provided Unifrutti and its external growers opportunities to demonstrate mutual support. Weather patterns have been increasingly unpredictable in the last decade, creating stress in plants as they get too much water. Too much moisture, for instance, make plants susceptible to the Black Sigatoka disease. This is problematic for growers such as TCBC, which produces premium bananas (i.e., cluster packs) to the highly demanding Japanese market. The

Black Sigatoka disease meant that bananas prematurely ripen when they reach the end market. Stopping the production of cluster packs is not an option as this would lead to a loss in market shares as foreign buyers look for alternative suppliers.

The solution entailed sacrifices for both company and growers. Unifrutti brought in more technicians at extra cost, while the TCBC farmers had to agree to harvest the banana at a younger age to arrest the ripening process, and earn less due to the reduction in the weight of the fruits. This whole process required team work, because even growers who might be less affected by the disease or unconvinced by the gravity of the problems have to bring down the age of the harvest. Unifrutti, in turn, took the initiative of offering an El Niño adjustment price, adding USD 0.25 per box to the agreed price, even when the El Niño has passed the adjusted price remained.

Following the aftermath of Typhoon Pablo in 2012, UTPI entered into a tripartite agreement with Land Bank of the Philippines (LBP) and one of its partner ARB cooperatives in order to assist the latter in rehabilitating the farms devastated by the storm and affected by Sigatoka disease. The LBP extended the loan to the cooperative through UTPI, who will then collect the repayments by subtracting them from the proceeds of the cooperative's harvest. The agreement started falling apart in early 2018 when the sharp spike in spot prices led to massive pole-vaulting among the members of the cooperative and eventually among the leaders themselves.

During a dialogue between UTPI and the cooperative's leaders in May 2018, the unfortunate confluence of events that led to pole-vaulting and default of payments became apparent. According to the farmers, it all started when two members who failed to meet UTPI's quality standards asked permission to sell the rejected bananas to outside buyers. Since the spot price at that time was almost twice that of the contracted price, these farmers ended up earning more than those who sold their produce to the cooperative. This perverse outcome unleashed a flurry of demand from other members to be allowed to pole-vault as well. Another factor is the geographical set-up of the plantation, which made the control of the exit of harvests close to impossible. It had multiple entries and a common cable runs through the estate, which also hinders monitoring. Moreover, at its peak, the spot price reached more than three times the contracted price. Such a gap would test (and break) even the strongest of partnerships. Lastly, the distribution of benefits and gains among the members of the cooperative became untenable as the more productive farmers ended up carrying a large part of the debt burden. The LBP loan was meant to rehabilitate the farms stricken by disease, but the cooperative leaders admitted to distributing the loans also for consumption purposes (e.g., motorcycles). Unsurprisingly, the affected farms failed to recover so that it was mostly the harvest of the healthy farms that were paying off the loan. This made cooperation among members untenable.

This experience shows how the lack of reciprocity or free-riding by partners deflate the resolve to persevere with inclusion. Collective action requires mutual trust, which is facilitated by everyone, including farmers, taking on an inclusive business model. The incidence of pole-vaulting is particularly problematic for trust and confidence building among value chain partners. However, as shown during the dialogue between UTPI and the cooperative, opportunistic behavior is fostered by a host of factors that include lack of leadership, perverse incentives, monitoring difficulties and uneven distribution of costs. The huge price gap between spot and contract price could have been partly addressed had UTPI been the lead firm in the value chain who has full discretion to shift markets or set prices so that they do not deviate too far away from market levels. However, UTPI, being a local intermediary or lead supplier in a global value chain do not have such full discretion.

While UTPI is large enough to provide resources and redistribute value towards smallholders, it is relatively small in the global value chain led by its principal investors. In 2014, during the difficult years of in-fighting within the De Nadai family, Chiquita was taken over by the Brazilian juice maker Grupo Cutrale and the investment firm Safra Group. The dynamics resulting from these major organizational changes are known only to those who are privy to the most internal affairs of the company. However, one can imagine the difficult transitions or adjustments these may bring, especially in the context of current market conditions. Addressing the heightened competition from countries such as Ecuador and Columbia would require a coherent and bold corporate strategy, while taking advantage of new opportunities, such as those presented by the burgeoning Chinese market, demands greater flexibilities, among others. UTPI, being the intermediary between its principal investors and the local banana growers, is tasked to perform a delicate balancing act, which would certainly lead to some instability and uncertainty before a new equilibrium is reached.

The last two to three years have been particularly eventful. It witnessed the transfer of ownership of La Frutera Incorporated to a new company founded by John Perrine, the UGP, Inc. (Under (One) God for Peace) in November 2017. A few months later, on the 26th of January 2018, a major change took place, with Alberto Bacani officially taking up the reins of the company from John Perrine after three years under the latter's mentorship.

As recounted by "Alpi" Bacani, he went through a baptism of fire, steering the company through more stormy waters in recent years compared to the relatively stable and highly profitable periods in the past. The internal strife between Unifrutti's principals, the increasing frequency of devastating storms (e.g., Typhoon Pablo), the TR4 fungal disease problem plaguing the whole Cavendish export sector, together with other external market shocks such as the Iranian sanctions, the rise of refrigerated containers, surge of foreign spot traders in the local market, as well as the increasing competition from Latin American producers, produced a perfect storm of challenges that can cripple even the most robust of companies.

At present, UTPI is in a crossroads where difficult choices on the future of the company are being made. In particular, the dependence on external growers for the supply of bananas is increasingly felt as a source of vulnerability for the company. This is in contrast with the past, when partnership with individual and cooperatives of farmers was seen as an optimal investment strategy since new suppliers could be tapped without incurring the high fixed costs of establishing one's own plantation. The entry of new foreign buyers who entice farmer growers to sell by offering higher spot prices has shifted the market power to the latter. This trend of lower entry barriers in the banana sector is one that will continue to persist, among others, because of the technological advancement in shipping and logistics. The fact that around 80 percent of UTPI's exports are sourced from external growers[39] only further amplifies the market power of external growers in the value chain.

The resilience of UTPI will be seen in how it navigates itself in the changing context of the company and the banana sector. At least two internal and two external developments are worth noting. The first pertains to the move towards a more collective leadership within the company. While Bacani committed to preserve the values-oriented culture of the company, he nonetheless introduced his own style of leadership, which is collegial and geared to stimulate participatory leadership. Members of the management team who were interviewed[40] all agree that full disclosure of the internal state of the country to all the top departmental leaders, for instance, instilled confidence and trust, which in turn, stimulates a sense of ownership and co-responsibility.

Secondly, UTPI has decided to pursue a long-term strategy of developing and managing its own plantations. This has short-term costs in terms of the relationships the company has built with external growers, but if this translates into increased productivity, then the whole sector benefits in the long-run. Better performance of each individual player in the industry, whether they may be companies or independent growers, translates into greater competitiveness for the entire Philippine banana sector. In November 2018, the Development Bank of the Philippines (DBP) approved a USD 19-million loan to fund UTPI's planned establishment of a 700-hectare plantation.[41] Due to the reputation UTPI has built, a number of parties have recently approached

[39] The total hectares of external growers is around 5,000 hectares compared to around 1,200 hectares from UTPI managed plantations.

[40] This is based on a focus group discussion with some members of Management Team held on November 23, 2017 at UTPI Wharf, Davao.

[41] This is the biggest loan approved by DBP for farm development.

the company for partnership. A possibility of operating a 1000-hectare plantation in Lamitan, Basilan has opened up, with the cooperation of the local government unit. UTPI has also been approached to revive the farms abandoned by Dole in Barobo, Surigao del Sur due to numerous incidents of NPA attacks. UTPI's good labor and environmental practices makes it an attractive partner even in an NPA heartland, such as Surigao.

In the past four or five years, UTPI has progressively adopted a more sector-wide perspective. It has increased its involvement in the Pilipino Banana Growers and Exporters Association (PBGEA), with Alpi Bacani being elected as the Chairman of the Board during the International Banana Congress in Davao last October 2018. The growing competition posed by Ecuador and Columbia in Asian markets, as well as other common needs of the sector (e.g., increased advocacy for enabling government policies, joint approach to address plant disease) have been strong stimulus for multi-sectoral collaboration.

Lastly, UTPI recently launched a *new approach* to Corporate Social Responsibility (CSR), which is driven by a long-run vision. For over ten years, the CSR projects were very much demand-driven, or defined by the requests of the communities surrounding the company (e.g., day care centers, water systems, health and sanitation projects, skills training and livelihood programs). The new CSR program, named UNI-SEEDS (Unifrutti Skills Enhancement and Entrepreneurial Development for Sustainability) is targeted towards poverty alleviation, starting from the direct surroundings of the company. It aims to help develop livelihood opportunities by putting the company's key strength in training and skills-building at the disposal of their target communities. The vision of an inclusive business model for the company's value chain is thus expanded to encompass their immediate communities as well.

4. The Transformational Business Partnership (TBP) Model and the problems of smallholder farming

The Transformational Business Partnership (TBP) model evolved as Unifrutti strove to address the problems encountered by their smallholder and farmer-cooperatives engaged in small-scale agriculture. Farmers who were mostly employed to perform specific tasks in banana plantations have had to organize themselves as cooperatives and administer and manage their own farms under the government's Comprehensive Agrarian Reform Program. They miss a whole range of expertise needed to run a fully-fledged enterprise, from efficient sourcing and use of inputs, to equipment management and maintenance, to financial control, management and reporting. The right type of leadership qualities was also often lacking. The kind of leadership needed to defend farmer rights in acrimonious cooperative-company relationships might not be the same needed in order to manage their farms efficiently. When asked what they thought were the main differences between farmer cooperatives that succeeded and those that did not, Unifrutti officials point to the history of the cooperatives themselves. Those with more harmonious farmer-company relationships during the pre-agrarian reform regime tend to do better perhaps because farmers were better able to acquire a sense of ownership and develop the natural curiosity to learn. Instead, farmers that experience forms of oppression also acted as nothing more than paid workers, with little concern for the general well-being of the enterprise.

Aside from critical technical know-how, farmer cooperatives also lack the access to the appropriate technology needed for various stages of agricultural production: from planting, fruit care, pest and disease control, and irrigation, all the way to harvesting, packing, and transport. The ability to employ the right technology depends on a host of factors such as effective leadership, sufficient access to financing, as well as an overall good relationship with partner companies.

For Unifrutti, it was therefore crucial that relationships with farmer growers and cooperatives transcend the usual buyer-producer or transactional relationship. The company and farmers share a common interest to raise productivity and quality, and therefore needed to act as a collective or as partners, especially when faced with adversities. With the awareness of the mutual dependence comes the willingness to come to each other's aid. This explains why Unifrutti often voluntarily offers price increases whenever farmers face external shocks caused by climate, oil price, or exchange rate related hike in costs. The usual practice in the industry is for cooperatives to request for a renegotiation of prices, to which companies might or might not feel compelled to act upon because of the existing fixed contract. When asked why Unifrutti would decide unilaterally to increase the buying price, officials replied that as a company, they know full well what the break-even price of bananas is. When supply shocks occur, they know the impact of these on production costs, and therefore "see no reason why (they) should squeeze the profit margins of the farmers unnecessarily."[42] On the question of how the company could afford these extra increase in prices, they replied by pointing to the company's multiple roles in the value chain, each earning value and profits for the company. These, in turn, provide the necessary buffer that allows the company to assist their partner growers.

There were also occasions when the partner cooperatives had to trade higher short-term returns to address the immediate need of Unifrutti and its foreign partners. When it became apparent that the bananas were ripening too fast in transport, the farmer cooperative accepted the remedy suggested by Unifrutti which is to harvest

[42] This based on interviews with Unifrutti officials Roberto Sabastian, Jr. and Rovie Banzon and with TCBC cooperative leaders on December 2, 2017.

the bananas earlier. This meant lower weight and financial yields for the farmers. The Transformational Business Partnership model allows this give and take between producers and suppliers because it is based on the recognition of each other's strengths as well as mutual responsibilities in addressing common challenges.

5. UGP and its Transformational Business Partnership (TBP) with Bangsamoro communities

The retirement of John Perrine as CEO of Unifrutti in January 2018, gave him the freedom to pursue an investment strategy geared towards contributing to build sustainable peace in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM). The main vehicle for this is the new enterprise, called Under (One) God (for) Peace or UGP. Although the example of La Frutera Inc. (LFI) has proven that investments in a conflict-ridden region is viable and profitable, after more than two decades, sizeable investments such as those seen during the establishment of La Frutera have been few and far between. The ratification of the Bangsamoro Organic Law (BOL) in July 2018 and the succeeding plebiscite creating the BARMM in February 2019 may have paved the way for a more definitive political settlement of the civil war, but good economic fundamentals by way of investments and livelihood are indispensable as well. The establishment of UGP is therefore intended to help sustain that original vision that business is an essential condition for sustainable peace.

More than two decades of doing business in Muslim Mindanao have proven that the Transformational Business Partnership model is an effective approach for an enterprise to thrive even under the most difficult conditions created by five decades of armed conflict. As the following section will show, the benefits to the communities in general have also been visible and widespread. With the deliberate decision to invest in the BARMM, the UGP has further modified the TBP model in order to fit the unique culture of its main community partner in the Bangsamoro.

The MKAVI-2 experience in Lanao del Sur was a particularly important source of lessons for UGP, as it ushered in a new vision of engagement with partner communities and farmer groups. The relationship between a multinational company such as Unifrutti and a poor farming community is inherently imbued with all sorts of asymmetries (e.g., information, capabilities, assets), which often translates into an imbalance of power. The owner of capital (technology and financial resources) also takes on the management of labor, especially when farmer capabilities are low. This translates into an even greater share of value received by company who earns both from the returns to capital and the management of labor and land. In the case of MKAVI-2, instead, the Moro community leaders were able to demonstrate that they have the capability of efficiently supervising the plantation themselves. This means that given the appropriate support that the corporate partner is best able to provide, it would be very well possible to develop a business partnership model with an equitable sharing of profits. This is based on a clear division of labor between the company and the farmers, who both strive to improve on building up their complementarities. On one hand, the company should focus on what it is good at, namely, the provision and development of technology, product development, and assistance in process management, quality control, and marketing. The farmers and local community leaders, on the other hand, should aim to develop their competencies in production and the efficient management of the work force in order to increase the productivity of their farms.

In this form, the Transformational Business Partnership would be fully consistent with the Islamic principle of *Mudarabah* or a partnership where the company provides the capital and other party contributes their labor, management skills and other resources such as land. It is a form of an unincorporated joint venture wherein UGP provides the technology and working capital, as well as expertise in product development, marketing, and logistics. Smallholder cooperatives and/or community leaders, on the other hand, take on the task of land consolidation and development, as well as human resource management. UGP also assists their partners to institutionalize good governance practices based on proper checks and balances. This is important because the absence of transparency, largely due to insufficient accounting and auditing systems, is a common problem that breeds distrust, corruption, and opportunism.

The lesson derived from MKAVI-2 is that a *Mudarabah* between a company and the community is indeed possible. The company need not control the actual day-to-day operation of the business, but is free to inform and guide the community partner of the technical requirements that must be fulfilled to attain the greatest level of productivity possible. Moreover, the model applies the concept of profit-and-loss sharing that is consistent with the principles of ethical investment and Islamic financing. At the start of the commercial project, the corporate and community partners jointly determine the ratio in which the total profits are distributed. At the end of the contract or such time that returns are realized, the company receives its principal amount together with the pre-agreed share of the profit. In case of loss, however, the company loses its initial investment but the community incurs no financial loss because they have essentially lost their time, and their work would have been unproductive. In this sense, the community loses their own human capital in the same manner that the company loses their financial capital.

This vision of capital is key in understanding why UGP and its partners arrived at a 50-50 profit-sharing scheme agreement. Financial capital is at best equal to human capital and thus, profits cannot but be shared equally. This deviates from the standard practice where the company leases the land and employs the community as laborers. The company might provide incentives for hard or quality work, but the bulk of the profit is still reserved for the company shareholders. The corollary is that the company bears the full risks of an economic downturn. One of the key premises of the Transformational Business Partnership model is that a partnership of equals ultimately will lead to a better management of resources and therefore, higher levels of profit. The sense of co-ownership is regarded as a far superior motive to perform well compared to mere provision of wages or incentives. People will also go to much greater lengths to avoid losses when it is their own enterprise at stake.

Figure 6 (on next page) illustrates an example of the UGP profit-sharing scheme. The partnership process starts with the agreement to be fully transparent with respect to the costs of establishing and operating the joint venture. This is easier said than done as this would require the company to reveal the actual price fetched by the bananas from their end buyers. Moreover, the company must not only reveal but also explain how profits are generated, for instance, from their offshore transactions. UGP is not tied to a lead firm in the global banana supply chain, but transacts with a Hong Kong marketing firm (i.e., the Foreign Buyer in Figure 6), which takes on market risks such as collection risks. Note that contrary to the prevalent transfer pricing practices, especially in the banana sector, UGP intends to not retain any profit offshore. UGP states its minimum guarantee price and over that is booked as profit. The smallholder cooperative/community leader, on its part, is expected to be equally transparent in its costs related to field and human resource management as well as the maintenance of the plantation and its facilities.

Prior to the official establishment of UGP, John Perrine, Ed Bullecer and other associates formed Al Sahar Agri Ventures Inc., which since 2014 has already been entering into partnerships under the Transformational Business Partnership Model. In that same year, John Perrine met with Chairman Al-Hajj Murad Ebrahim in Camp Darapanan to explore the potential locations for banana plantations near the MILF camps and their communities. In November 2014, ground-breaking ceremonies were held in Talayan, Maguindanao, in the presence of key Moro leaders such as Mayor Tungkang Midtimbang, Datu Kagi Ali Midtimbang, MNLF Chairman Muslimin Sema, Mayor Mohamad Paglas and Ustadz Kagi Antaw Midtimbang. The Al Sahar project, covering around 2,600 hectares of Talayan, Guindulungan and Buldon, was a 3.7-billion peso project (USD 79 million), which was heralded as the biggest private investment in the ARMM region (RBOI-ARMM 2015).

Around the time that planting started in Talayan, the region faced a strong incidence of El Niño in the summer of 2016. The installation of irrigation was thus necessary but the watershed where Al Sahar's plantations were located have shown signs of Foc-TR4.[43] This necessitated further investments on advanced water treatment

[43] Tropical race 4 (TR4) is the name given to the strain of the fungus *Fusarium oxysporum* f. sp. *cubense* (Foc) that causes fusarium wilt (also known as the Panama disease) in Cavendish bananas.

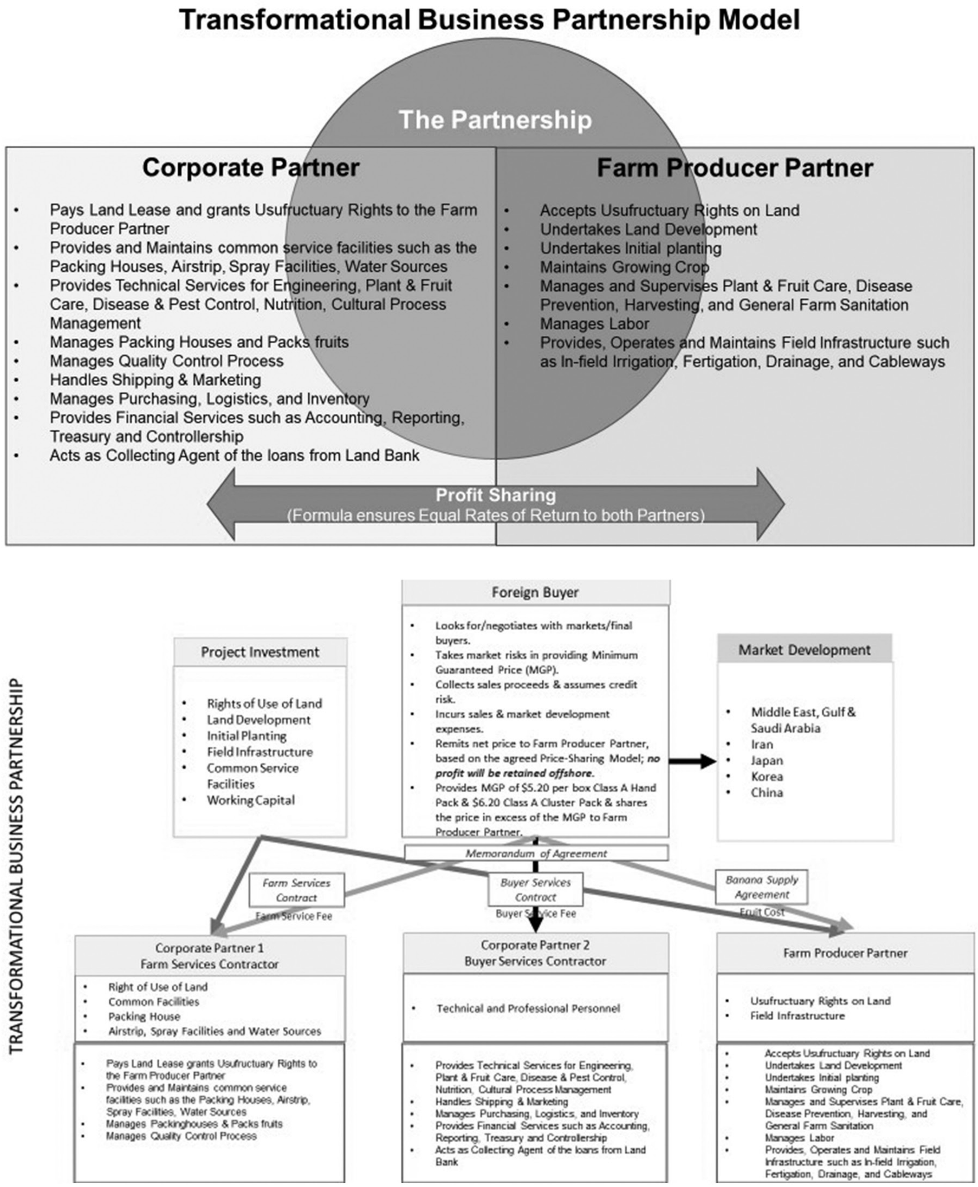

FIGURE 6 • The Transformational Business Partnership Model (for bananas)
(Source: UGP, see Annex 1a for details)

systems as well as a fertigation system across the plantation. When UGP officially took over La Frutera in January of 2018, one of the first order of business was to reinvest on the irrigation and water purification systems for the 1200-hectare farm. Production has significantly suffered due to the climactic shocks and plant disease experienced. The

El Niño that occurred from January until May of 2019 was also particularly severe so that new plantations that were still not fully equipped with irrigation also experienced a sharp drop in production. It was only in July of 2019 that all water purification (to combat the FOC-TR4 fungus) and irrigation equipment were delivered and made fully operational in Talayan.

Aside from La Frutera, the 404-hectare Alip River Development and Export Corporation (ARDEXCOR) is also 100% owned by UGP.[44] More recently, on May 21, 2019, the Transformation Business Partnership 50-50 profit-sharing agreement was formalized between UGP and the Midtimbang community in Talayan, and with the Buntocan-Abbas Clan in Datu Odin Sinsuat, Maguindanao.

6. Socio-economic transformation of Datu Paglas and Bumbaran

It is usually difficult to isolate the effects of a commercial enterprise on the socio-economic progress of a community because of the multitude of factors that determine such growth, and also simply because there are typically numerous business activities found in a community. However, the absence of any major policy intervention resulting to any above-average infusion of resources in the past twenty years (i.e., 1995 to 2015), and the fact that Unifrutti was the only investor in Datu Paglas and in Bumbaran for a good number of these years, make it relatively easy to determine a so-called *Unifrutti-effect* on the development of the said communities.

To begin, Table 4 demonstrates the trends in the population growth of Datu Paglas and Bumbaran relative to those of their respective provinces. Fortunately, for Bumbaran, a development plan for 2001 to 2010 was created in 2000, so that the projected population growth of 1.88 percent per annum could be compared with the actual historical growth rates. As data show, Bumbaran grew by an annual average rate

TABLE 4 • Demographic trends in ARMM, 1995–2015

	1995	2000	2007	2010	2015
ARMM	2,362,300	2,412,159	4,120,795	3,256,140	3,781,387
Maguindanao	662,180	801,102	710,829	944,718	1,173,933
Paglas	15,522	20,014	29,979	20,290	28,387
Lanao del Sur	686,193	800,162	1,138,544	933,260	1,045,429
Bumbaran	6,001	6,589	13,297	8,734	10,401
Bumbaran (projected)		6,750	7,695	8,139	8,292

[44] UGP purchased ARDEXCOR in 2017 for USD 6.465 million.

of 14.5 percent from 2000 to 2007, resulting to a total population of 13,297 (compared to the projected 7,695). This is consistent with interviews where workers of MKAVI-2 spoke about an inward migration of people, and/or the return of those who previously left Bumbaran in search of work elsewhere. The population growth in Datu Paglas during the period immediately after the establishment of La Frutera in 1997 is no less remarkable. While the growth in population in the whole ARMM region from 1995 to 2000 was trivial at 0.4%, Datu Paglas realized a 6% per annum growth rate during the same period. Clearly, the entry of Unifrutti in these communities significantly disrupted their demographic trajectories.

Datu Paglas and Bumbaran were both sixth class municipalities (i.e., the lowest income category) before the establishment of Unifrutti plantations within their jurisdictions. Datu Paglas, moved to being a fourth class in 2008, while Bumbaran, jumped to a third class during the same period. The share of both municipalities of the total local revenues, earned by the respective provinces Maguindanao and Lanao del Sur, is way above what would be expected given their share in the total provincial population. Datu Paglas constitutes just two percent of the total population of Maguindanao, but contributes five percent to the total locally collected provincial revenues. Bumbaran's revenue shares were just proportional to its population share in 2001 prior to MKAVI-2, but this peaked to 14 percent share of total provincial revenues in 2005, just a year after the full operations of the banana plantation. Total local revenues collected in Bumbaran increased by 95 percent from 2001 to 2008 or a

TABLE 5 • Share in total population, 2000–2015

	2000	2007	2010	2015
Maguindanao	100	100	100	100
Paglas	2%	4%	2%	2%
Lanao del Sur	100	100	100	100
Bumbaran	1%	1%	1%	1%

TABLE 6 • Share in total local revenues collection, 2001–2018

	2001	2005	2007	2008	2015	2017	2018
ARMM	100	100	100	100	100	100	100
Maguindanao	39%	56%	54%	57%	32%	47%	50%
Lanao del Sur	22%	25%	17%	20%	10%	12%	22%
Maguindanao	100	100	100	100	100	100	100
Paglas	5%	4%	3%	3%	6%	4%	5%
Lanao del Sur	100	100	100	100	100	100	100
Bumbaran	1%	14%	5%	6%	3%	4%	5%

rise of 14 percent per annum. Prior to MKAVI-2, the only source of taxes was from real property taxes.

The impact in the area of poverty reduction is also most evident for Bumbaran. While Lanao del Sur experienced a 25 percent decline in poverty incidence from 2000 to 2006, for Bumbaran the fall was twice faster at 56 percent. Poverty incidence actually increased from 59 percent of population living below the poverty threshold in 2000 to 72 percent in 2015, while for Bumbaran, people living in poverty fell from 77 to 54

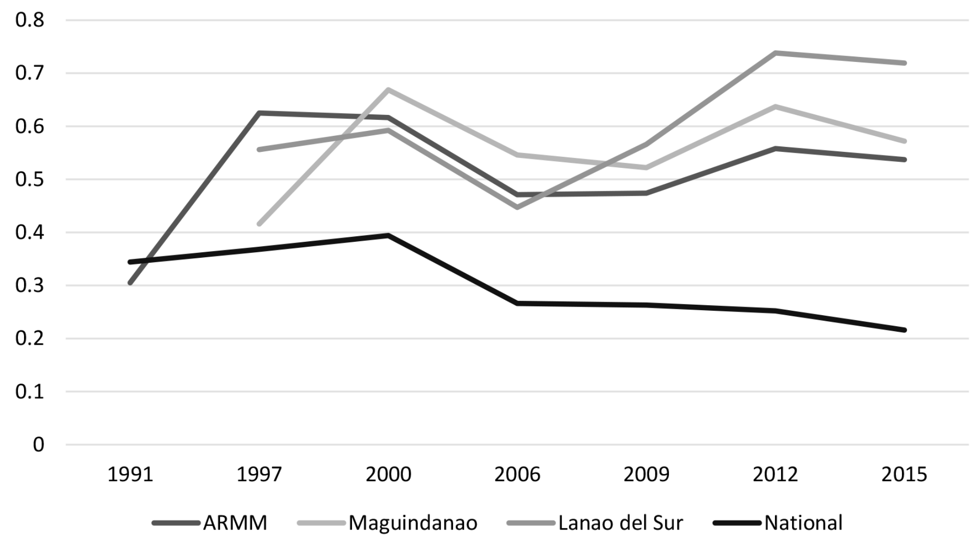

FIGURE 7 • Poverty incidence in ARMM, 1991–2015
(Source: Philippine Statistics Authority)

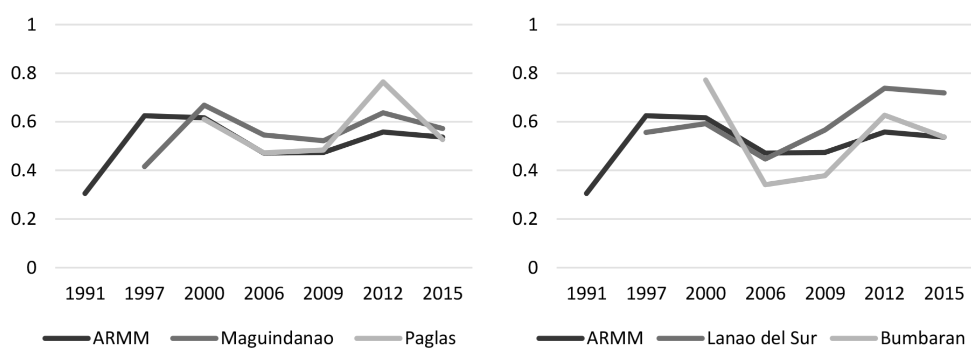

FIGURE 8 • Comparative trends in poverty incidence, 1991–2015
(Source: Philippine Statistics Authority)

percent during the same period. Even for Datu Paglas, the poverty incidence is lower than Maguindanao levels.

7. Key driving forces of the Inclusive and Transformational Business Partnership Model

The long history of Unifrutti provides an opportunity to examine how an inclusive business model evolves. The company's story is replete of transitions, that is, it did not immediately start out as being ecologically responsible, humane to workers, or committed to peace-building. There was no grand plan to build a virtuous company, but exceptional circumstances together with a general open posture of dialogue produced frequent catalysts of learning and adaptation. The aim of this section is to further understand the driving forces of the company's business behavior thereby exploring the logic that makes its business model codifiable and hence, replicable.

To appreciate the societal value of replicating inclusive practices, consider first the difference between standard and inclusive business models. In the context of prevalent market and institutional failures these models largely differ in the way and extent to which they address these failures. Generally, market failures call for government or collective action to ensure that activities beneficial to society are sufficiently undertaken, and those harmful activities are instead prevented or reduced. Inevitably, it is to everyone's benefit that markets work well in order to maximize productivity and incomes. However, because free-riding behavior is difficult to smother and multiple agents have varying stakes and thus incentives to act, coordination is often difficult as well.

There are *positive* and *negative* means of making markets function better. The terms positive and negative are not associated here with the usual concepts of good and bad, but with the type of approaches private actors take to address challenges. A negative approach to solving market failures is primarily geared to eliminate or reduce whatever adverse effects these failures might have on private interests. A positive approach, on the other hand, seeks to build mechanisms, create incentives, and foster the conditions that will make markets work more efficiently for all.

In the context of the Philippine banana sector, one critical source of market failure are externalities resulting from the passage of the CARP in 1988. When private companies pass on the ownership of land, they likewise handed over the fruit trees and the know-how and technology of banana production to farmer beneficiaries. In this case, the so-called positive externalities are beneficial for farmers since they are able to acquire the assets that were coupled with the land transfer without fully paying for its costs, especially for the more intangible assets such as experience and know-how. The contrary is true for companies that cannot be fully paid for the costs of these intangibles. For farmers to fully absorb the knowledge or production information passed on, it is necessary that additional investments are made on their education and acquisition of the needed skills. Partner companies would also certainly benefit from the increased capacities of farmers, but would be unwilling to shoulder the costs of training in a situation where farmer cooperatives could shift to other partner companies every five years or so. Training and capacity-building of farmers in this context, are public goods, which could only be provided either by collective effort from all companies or by government.

Moreover, a profitable exploitation of the farms required further market information, technological access, and more importantly, financing. Other sources of market failures are linked to the environmental impact of large-scale plantation (monoculture) agriculture, to the weak bargaining position of smallholders (and equally weak labor market regulations) that make them susceptible to abuse, the asymmetry of information (related to market prices, access and product standards requirements), lack of credit and insurance access to smallholders, and insufficient provision of public goods, especially those that capacitate smallholders or agrarian reform farmer beneficiaries and allow them to meaningfully benefit from market participation. One critical issue is the fragmentation of production due to the land distribution scheme. In the banana export industry, scale matters so that inability to consolidate land and production will prevent producers from realizing the scale economies that will allow them to set prices low enough to compete.

Table 7 (on next page) lists down the various market and institutional failures and the extent to which standard, or a transformational business partnership model would address them. For the purpose of exposition, we assume that standard business models largely consist of negative approaches to solving market failures (i.e., the main motive is to address the adverse effects of market failures on their private interests alone), while inclusive models such as those of the Transformational Business Partnership employ positive measures to create new mechanisms and incentives that benefit both the company and their partners. As Table 7 shows, fully addressing the extent of the market failures would necessarily require the participation of the government, which not only finances the public goods, but also provides the needed regulatory framework to address competition, land rights issues, among others. The more prevalent the market failures, the more systemic the problem becomes, thereby necessitating a multi-sectoral approach.

Within the value chain, lead firms endeavor to address (or *internalize*) the market failures they face. It is a given that the nature of the banana exports (i.e., perishable product, subject to high fixed costs, high quality standards) is such that relational contracts predominate, as opposed to mere arms-length transactions. Assuming that the banana value chain is characterized by a captive governance framework due to low

TABLE 7 • Standard versus inclusive business models

Market and institutional failures	Standard	Inclusive
Positive externalities		
Ownership assets	✓	✓✓
Know-how, technology	✓✓	✓✓
Negative externalities		
Labor abuse		✓✓
Environmental damage		✓✓
Information asymmetries		
Prices		✓*
Market access		✓✓
Product standards	✓✓	✓✓
Barriers to entry		
(Lumpy) fixed costs		✓
Scale economies		✓*
Credit access	✓	✓✓
Public goods		
Infrastructure	✓	✓
Training and education	✓	✓✓

farmer competence and the need for explicit coordination between the lead firm and suppliers (see Figure 3, Section 2), then certain externalities must be addressed in order to ensure production efficiency. Entering into a contractual relationship is the typical method used by lead firms to address externalities related to protection of knowledge (or brand) assets, transfer of know-how, and technology and provision of information on product standards, and even access to credit. Inclusive or transformational business partnerships, on the other hand, go much further in addressing market failure as the notion of mutual assistance, or collective action, is far stronger than the standard model. Even the more difficult form of externalities related to barriers to entry, for instance, could be addressed if the lead firm itself provides the farmer partner the possibility to scale up and invest on their farms.[45]

[45] Unifrutti, for instance, turned over two corporate farms over to Agrarian Reform Beneficiaries with a back-to-back supply agreement wherein farmers supply the company for the next 20 years to be able to pay for the acquired assets through deduction per box sold. Fixed investments, such as the irrigation system that would otherwise be too big for cooperatives to pay on their own were turned over. Contrary to the practice of cutting the standing crops or demanding payments from farmers, Unifrutti turned over the banana trees for free. UGP, by giving their partner community access to the needed capital investments, also allowed the community to operate as full partners.

Since market failures are addressed only partially in the standard case, the systemic problems surrounding the smallholders, such as poverty, as well as environmental degradation could only worsen through time. Inclusive models, on the other hand, generate reciprocity, or inhibits the free-riding behavior that makes collective action difficult. At its best, inclusive companies will feel compelled to strike societal partnerships in order to fully solve the systemic problems that inevitably impinge on their operations.

7.1 Unifrutti's transitions towards an inclusive business model

What triggered Unifrutti to depart from the standard mode of doing business in the banana industry? This question is even more difficult to answer given the extraordinary circumstances the company found itself when it first decided to locate in a conflict zone. Violent conflict causes the most extreme form of market failure. This is because the first casualty of war is trust, and markets cannot operate in the absence of trust. North (1990) said that although markets depend on impersonal market institutions, such institutions have emerged in societies with informal norms of mutual restraint, or norms that nurture trust. David Hume, in his famous *Treatise of Human Nature* (1738, 566), states the critical value of trust (i.e., "performance of promises") in engendering society's ability to provide an increasing amount of material goods (488). War therefore creates profound market and institutional failures because no form of cooperation is enforceable in a situation where trust cannot flourish. Discrete or arms-length transactions may still be possible, but not long-run investments, because these require stability of relationships that enable long-run planning and flexibility to address unforeseen challenges.

That such stable relationships cannot be built without trust explain why no investor has set foot in the region of Datu Paglas since 1968 when the Mindanao conflict started, all the way until 1996 with the establishment of La Frutera. The decision to locate in a war zone seemed to be the critical trigger for Unifrutti to break out of the status quo and transition towards more inclusion. One wonders whether the company would be what it is today had it decided to stay away from Muslim Mindanao like many of its competitors. What instead led to that decision was an interesting mix of motives. On one hand, Senen Bacani, tasked to source land for Unifrutti's first managed plantation, saw the unique potential of locating in Muslim Mindanao with its fertile land, ideal climate, abundant water source and available workforce. He spent years managing the operations of Dole in South Cotabato, and although this was located in the Christian area of Mindanao, majority of its workers were Muslims, many of whom were rebel returnees themselves. John Perrine eventually agreed to meet Datu Toto Paglas due to the insistent prodding of a friend who vowed to camp everyday outside his home until he agreed on the meeting. However, his intention was to say no because despite the benefits of locating in the fertile and naturally irrigated land of Maguindanao, the threat of war and the existential risks locating there was a great hindrance.

It is also true that a state of relative peace was effective at that time following the peace agreement inked by the Ramos government with the MNLF in 1996 and with the MILF in 1997. But there were numerous incidents in the past that demonstrate how fragile peace still was. In fact, in 2000, an all-out war was declared by the Estrada government, and again in 2003 during the Arroyo administration. Taking the mere prospect of profits as motive therefore seemed inadequate in the case where there are no obvious proximate or even distant existential threats, and pressure to accept the risk of investing in a war zone. The question at hand is whether one can conceive of a situation where trust, in the context of war, could ever be deemed as being rational.

The dominant paradigm of rational behavior is based on the consistent pursuit of self-interest. Based on this view, the logic of a business model is ultimately traced back to the company's profit motive. In the case of inclusive enterprises, practices that seemed altruistic or largely beneficial to society, are rationalized by the long-term benefits that are reaped either because of a more motivated and hence productive workforce, stability of supply because of greater ecological balance, or because of reputational rewards. The overall expectation of mainstream thinking on inclusiveness is that it all redounds to the ultimate benefit of the company and this validates the rationality of a company's inclusive practices.

Unifrutti's profit motive is likewise evident, certainly because of its accountability to its foreign principals. However, the Unifrutti experience, with the consistent display of importance given to relationships based on trust, provides a glimpse of the social dimension of rational behaviour as well.

But how is trust built when the immediate situation works so glaringly against it? In the case of La Frutera, that initial act of trust transpired during the first meeting of John Perrine and Datu Toto Paglas. Despite the attendant risks, Perrine honestly expressed his fear and openly said, "I grew up being taught never to trust a Moro and the only good Moro is a dead Moro. Why would I trust you?" Datu Toto Paglas, ("without breaking gaze, without blinking an eye," as recounted by Perrine), answered back, "I will never ask you for more than we agreed. I will protect your investments and your people. I commit this to you by my blood." Perrine said that he knew that came deep from the heart, and he saw Datu Paglas at that instance, not as a Moro, but as a man he would want to have beside him in a life and death situation, hence, someone he could trust completely. Perrine struck his hand out and said, 'we are coming in". This was a clear example of genuineness, or the non-instrumental nature of an act of trust (Bruni and Stanca 2008). Datu Paglas did not ask for altruism or benevolence when he said that he will not ask for more than what was agreed. Neither did John Perrine, as what he needed was commitment of reciprocity.

The first phase of Unifrutti's transition towards inclusion is therefore triggered by that fateful event. The significant benefits of locating in a region as fertile and vast as Datu Paglas made the risk worth taking, but it is doubtful whether that would have been sufficient without the circumstances that allowed Perrine to make that leap of faith. The fact that John Perrine and Datu Toto were total strangers when the agreement took place begs the question of what made such an extraordinary act of trust possible. During their succeeding meeting, this time with Chairman Salamat, the dimension of faith came to fore when John Perrine expressed his sense of being brought there by the "hands of Allah." Referring to God as Allah was an acknowledgement of a shared belief, a show of respect, but also an indication that one is a person compelled to act on the basis of faith. The academic literature on the role of religion in building trust is large and cuts across many disciplines.[46] Religious behavior is said to signal commitment and personal qualities which enhance trust and facilitate collective action (Sosis 2005). Faith comes with a sense of accountability (to Allah or God), which in turn, binds individuals to certain values or moral principles. The consistent reference to the importance of faith given by Unifrutti and La Frutera throughout their history attests that belief in one God has indeed been a powerful stimulus to build the critical level of trust needed to build lasting relationships. Initial trust-building efforts in La Frutera, in fact, were directed towards collectively discovering the commonalities between Islam and Christianity.

The experience of La Frutera is valuable in illustrating how trust begins, spreads, and endures. It demonstrates how markets emerge, especially when protracted war has stifled the normal process of accumulation of skills and capital, thus making the affected communities dependent on external sources of investments to jump-start economic growth. La Frutera became possible because of two leaders who were not only intrinsically strong, but who were also embedded in specific institutional contexts that allowed them to exercise wide discretion. John Perrine, who owned Oribanex was given ample leeway by his foreign principals to decide on where to invest, while in the context of a failed state in Mindanao's war zones, the Datu system provided a structure of governance that facilitated the consolidation of the needed land and manpower.

The discretionary powers enjoyed by John Perrine and Datu Paglas, however, is proportional to the degree of confidence that their respective principals or communities have on them. This confidence, in turn, depends on the stable disposition to act responsibly (Gauthier 1986; McClennen 1990). The fact that Perrine and Paglas were perceived to be trustworthy resulted to the so-called transitivity of trust. According to Putnam (1993), trust is transitive in the sense that one can trust a stranger because of

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[46] See, for instance, Bercovitch and Kadayifci-Orellana 1999; Veenstra 2002; Abu-Nimer 2001; Wuthrow 2002; Welch et. al. 2004; and Sosis, 2005.

the assurance given by a trusted person that this stranger can indeed be trusted. For trust to be durable, however, both the investors and the Paglas communities need to demonstrate in return that “stable disposition” to behave responsibly, or to behave in ways that take the other’s well-being into account.

But what about the role of prejudice? It is said that foreign investors might have been more prepared to locate in Muslim Mindanao because they have no baggage of prejudices that Filipino Christian investors would typically have on the Muslim population. The transitivity of trust would function on foreigners but less on locals because the latter have a more direct sense of mistrust on Muslims in general. This might perhaps be the reason why none of the first batch of Ultrex’s mostly Christian managers and supervisors considered the idea of relocating inside the municipality of Datu Paglas itself. On the part of the workers, it took more than a year before everyone was convinced to leave their guns at home when working in the fields. They, too, have deeply ingrained prejudices having lived through several generations of conflict and discrimination.

This brings us to the next critical phase of confidence-building. It did not take long before conflict erupted between the workers and management of La Frutera. Given the large differences in culture and long history of mistrust, it would have been surprising if such tensions did not take place. Had the conflicts been addressed purely through the corporate or the community approach, the fragile trust would have been quickly extinguished. There are at least three determinant factors that allowed La Frutera to survive through this phase. One is the readiness to dialogue in order to understand each other’s cultural sensitivities. Years of isolation from each other not only fostered prejudices but also made them largely ignorant of each other’s norms and traditions. What was critical was the demonstration that cultural differences could actually be accommodated without the company or community significantly sacrificing their own interests and identities. There was a great deal of experimentation on how to deal with conflicts. Datu Toto was wary of the effects of the individual incentive system on the workers with such a strong collective culture, but nonetheless allowed the company management to introduce them. When it created internal tensions among workers as Datu Toto had foreseen, the company agreed to shift to a more collective incentive system. The company agreed when Datu Toto asked to put one of his men in a supervisory position despite the latter’s lack of any technical know-how. But when it became apparent that imposing discipline the “commander’s way” (i.e., through the muzzle of the gun) was counterproductive, this practice was likewise changed.

A second vital factor is the embeddedness of key leaders, which signaled trust but also ensured that tensions could be quickly addressed. Being embedded means that they could more effectively lead by example. Ed Bullecer has been John Perrine’s key partner ever since Oribanex had been established, and the decision to embed him in Datu Paglas, not as part of the company, but as one of the directors of Paglas Corporation was a critical move. Bullecer also relocated and lived in Datu Paglas for a time, which left a deep and lasting impression on the community. Datu Toto Paglas and his family were also directly engaged in various facets of La Frutera's operations, with the Datu regularly inspecting the farms himself. Senen Bacani and John Perrine likewise made themselves approachable to supervisors and workers alike.

The third driver of confidence-building is the deliberate or pro-active effort to maintain trust. This entailed anticipating the possible harm or benefit one's action might have and taking the initiative to address the harm or enhance the benefit for the other. Trust is built not only because conflicts were resolved, but because one takes the first step to avoid conflict. The sound environmental practices of Unifrutti, for instance, emerged from the awareness of the consequences that standard plant care measures would have on the rivers bounding the La Frutera plantation.

The third phase involved the definition of the company's values and measures taken to create a cohesive corporate culture. There are several reasons why values formation gradually came to the fore among Unifrutti's priorities. For one, the need to maintain trust was a constant pressure to have a coherent set of values. The company took their guidance from "God's values of Love, Truthfulness, Trustworthiness, Discipline," which is unsurprising given the strong religious background of both the company and its partner communities' leaders. Another catalyst was the growing perception of the values deterioration, especially among some of the company employees. This has to do with the prevalent machismo culture in the banana sector, particularly in Davao, where it has been common practice to entertain Japanese guests by frequenting the city's night life. What started as informal Bible studies evolved into institutionalized weekly values formation sessions that became one of the company's most distinct features.

7.2 Unifrutti's transformative learning process

The transformation process undergone by Unifrutti was not linear, but a cumulative and circular progression of learning. The phases of transition discussed were stages that the company has had to constantly revisit in its process of growth. There were, for instance, frequent circumstantial triggers that moved the company further ahead; sometimes because their past experience gave them greater facility to confront new challenges, and sometimes because a new set of difficulties provided fresh opportunities to innovate. When the need arose to expand its production of lucrative high-land bananas, it was much less difficult to choose another location in yet another conflict area of Muslim Mindanao. This is because La Frutera has already demonstrated that trust can be durable and profitable. The social capital built with Datu Toto and his community also inspired the confidence of Sultan Manabilang and his people. This was the transitivity of trust at work.

Even at MKAVI-2, Unifrutti's plantation in Bumbaran, tensions were inevitable, so the company must once again start the motor of confidence-building. This time it was different, however, because it was the Sultan himself who asked to be given the rein of supervising the farm. Although this was met with initial resistance by the company's management, years of experience with Datu Paglas and increasing familiarity with Moro culture must have given the company enough confidence for them to agree to such an arrangement. It was also fortunate that Daffy Tulba, the manager that Unifrutti initially assigned to MKAVI-2, was an embedded, competent and amiable individual who was able to gain the Sultan's full trust. Although the Sultan ran the supervision of the farm, he eventually gave Tulba the full authority to act, and therefore, lead on his behalf. In the succeeding iteration of the Transformation Business Partnership Model, the 50-50 profit sharing agreement proposed by UGP already reflect the full confidence on the ability of the Moro community's leaders to supervise the farms as equal partners.

Unifrutti's engagement with the indigenous people of Bukidnon provided critical lessons on the importance of confidence-building not only with its direct partner, but also with the communities surrounding its plantations. In this case, Unifrutti had to learn how to voluntarily acknowledge the ancestral rights of the Indigenous tribes, despite possessing legal land rights and water access. This was far from a smooth and painless process as the Talaandig Tribe of Bukidnon harbored its grievances for ten years before taking concrete action against Unifrutti. By that time, Unifrutti already developed its own principle of dealing with conflicts, which is to avoid bringing in lawyers and the legalities of law and contracts. The primary method of choice was dialogue.

It was also in its Bukidnon plantation, MKAVI-1, that the issues of labor rights particularly came to the fore. The fact that they were operating in the heartland of communist insurgency must have played a role. Exploitation of labour and environmental damage were frequently cited by the New People's Army (NPA)[47] as motives for attacking banana plantation operations in Mindanao. But aside from the concern for the security of its farms and personnel, there is an internal process of airing grievances among personnel and field workers that helped shaped its labor practices. The Values Reconciliation Board was instituted within the company precisely to address the workers' sentiments that their voices were not being heard. John Perrine's instructions to the company managers and supervisors were for them to take the complaints of the rank and file as help for the company to be true to its vision and values. This process of critical reflection is often cited in organizational development

[47] The New People's Army, the armed wing of the Communist Party of the Philippines, was founded in 1969.

theories as being an important element in transformational learning (Henderson 2002, 187).

From Unifrutti's engagements with Agrarian Reform Beneficiaries (ARBs) grew the unusual practice of dealing with legal contracts. Everyone interviewed for this study attested that contracts were used only to ink the beginning and set the initial terms of partnerships. Whenever the need arises, however, contracts were kept hidden in the drawers and both company and farmer cooperative leaders sit down to negotiate solutions that benefit both parties. Unifrutti is known for its willingness to reopen contracts for negotiation to accommodate whatever unforeseen events that adversely affect their farmer partners. These may include climatic shocks, plant disease, foreign exchange fluctuations or unforeseen surge in input prices. This approach coincides with Ian Macneil's theory on relational contracts (1977; 1985) where "participants never intend to expect or see the whole future of the relation as presentiated at any single time, but view the relation as an on-going integration of behaviour to grow and vary with events in a largely unforeseeable future" (as cited in Gubel 1998, 765). Pure assertion of legal rights is an expression of distrust as Macaulay (1963) finds in a ground-breaking research on contract behavior, and this is why legal sanctions are not often resorted to by parties in a long-term business relationship. When conflicts occur, it is Unifrutti's policy to not involve lawyers, so as to emphasize the primacy of mutual trust and voluntary compromise over mere determination and enforcement of legal rights.

These practices were not planned or initiated as a matter of virtue. They were the result of a cumulative and circular process of transformational learning where new practices or behaviors were triggering a redefinition of company values. The initial motives might have been driven by the usual need to protect investments and ensure productivity in order to maximize profits, but because trust-building was particularly crucial in Unifrutti's context, the company was in some way forced to strive for higher standards of behavior. The frequent confrontation of practices with their defined values elevated the company motives through time. The company's environmental concern, for instance, was initially triggered by the mere imperative to acquire the Rain Forest Alliance certification as well as prevent the ecological harm on the community, which the company saw as eventually posing as a security threat for them. But as the company began to articulate a set of values, the importance of the environment became associated with the vision of stewardship of God's creation. Once that relationship was established, stewardship gradually became the company's motive for developing better environmental norms.

The transformation of practices into principles was caused by the feedback of practices and values. This is where the weekly one-hour values formation sessions within the company might have been critical. In these occasions, individuals are encouraged to examine how they have put the values, drawn from the Bible and Qur'an, into daily practice. In the beginning, some individuals interviewed admitted to have been merely forced to participate due to company policy. After many hours of these sessions throughout the years, however, these same individuals claim to have unconsciously started changing their behavior. This demonstrates that there is a natural propensity to learn and drive to improve. A process of transformational change transpired in the organization because a critical mass of individuals has been undergoing a continuous process of learning, resulting to a coherent company culture.

7.3 Trust and social capital

That trust is cumulative brings us to the whole discourse of social capital. In fact, one can define social capital as nothing else but trust embedded in relationships. Confidence-building is an act of investment on relationships, and similar to any process of cumulative causation, trust begets trust. The quality of relationships therefore rises as the sunk or "embedded trust" increases. The value of relationships builds up with every act of reciprocity and solidarity, explaining why ending a relational contract is difficult and could take a lot of time. The usual saying that trust comes on foot and leaves on horseback does not apply when trust has become an asset too valuable to give up.

Unifrutti's decision to finally put an end to their relationship with one of their external growers, for instance, came only after numerous attempts to restore trust. The company extended a series of loans, as well as guaranteed a sizeable loan from Land Bank for a particular farmer cooperative in order to rehabilitate the farms affected by flooding and disease. A confluence of circumstances led to the breakdown of cooperation between competing groups within the cooperative, which led to pole-vaulting by the entire membership, including their own leadership. This led not only to payment defaults but to the serious damage of the fifteen-year relationship between the farmers' cooperative and Unifrutti in 2019. It is clear in this case that social capital, because it is driven by trust, can be depleted by continuous display of non-reciprocity.

Social capital can reach a critical level so that a certain "automaticity" of trust creeps in. When trustworthy behavior becomes a pattern or an inherent part of one's culture, then commercial relationships turn into a "market" that is stable, predictable and productive. Institutional economics consider the repetitive nature of transactions to be the key in the transitions from informal to formal institutions. It is however not explicit on the role of social capital in allowing Adam Smith's invisible hand to work. The pursuit of self-interest leads to collective good because a certain culture has evolved where behavior is underpinned by a set of "morals" or virtues that breed trust. Adam Smith (1759, ch. 1), who said that "it is not from the benevolence of the butcher, the brewer, and the baker that we expect our dinner but from their pursuit of self-interest" is the same man who said "how selfish a soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it" (ibid.).

From this viewpoint, social capital is not only derived from a self-interested need to acquire trust, but from an inherent propensity to build social relationships. In the relational goods literature (Gui 1996; Bruni and Stanca 2008), "it is the relationship itself that constitutes the good" (Nussbaum 1986, ch. 12). This is akin to Macneil's view that "we have much interest in solidarity as we do in capturing for ourselves as much of the exchange surplus as we can" (as cited in Gudel 1998, 777). Macneil's theory on relational contracts is based on the concept of man as being both a completely selfish and a completely social creature who "puts the interests of his fellows ahead of his own interests at the same time that he puts his own interest first." In Genovesi's (1769) thinking, man is driven by the twin passion of love of species (*forza diffusiva*), and self-love (*forza concentrativa*). Genovesi therefore did not minimize the role of self-interest when he examined the concept of *reciprocal assistance*, or the view that in an economic system, the act of exchange is an act to help others to satisfy their needs. Macneil concurred that in the absence of reciprocity and solidarity, tension will arise between this need to be social and need to be selfish, which leads to paralysis or breakdown of contracts. However, in the Genevosi tradition, reciprocity and solidarity are two sides of the same coin: the good or service done to the other is both a private and a public good. In fact, what is expected is not an act of benevolence, but an act that confirms trust. Solidarity, or the recognition of a common identity, breeds reciprocity. As Macneil (1983) explained, "solidarity is a belief in being able to depend on another and permits the projection of reciprocity through time."

The social dimension of economic behavior was furthered explored by a well-known study by Joseph Henrich (2001) and his colleagues, where they studied 15 small scale societies throughout the world to test whether or not the predictions set out by game theory based on the canonical self-interest model would prevail. Surprisingly, the results of their various experiments were contrary to the expectations of standard economic models. Individuals behave more socially than expected, and the more commercial a society is, the higher the level of social generosity is.

That sociality is an indelible feature of man's nature as a social animal could also be linked to the concept of *group selection* in evolutionary theory. According to multi-level selection theory (Wilson 1997), man is social because his own survival and that of his own species depends on sociality. From that perspective, one could better understand the seemingly irrational behavior of so-called haplodiploid social insects such as honeybees and ants, as well as that of packs of animals, where the leader or the strong members sacrifice themselves for those who are weak. Nature must somehow endow social relationships with intrinsic value in order to ensure that traits so crucial for survival could be nurtured.

These desirable traits, commonly known as "virtues," are propagated by various human traditions all throughout man's history. Dahlsgaard, Peterson, and Seligman (2005), from the lens of positive psychology, examined the philosophical and religious traditions in China (Confucianism and Taoism), South Asia (Buddhism and Hinduism), and the West (Athenian philosophy, Judaism, Christianity, and Islam) and identified the positive traits that were regarded as elements of moral behaviour and a good life. They arrive to six core "ubiquitous virtues": wisdom, courage, humanity, justice, temperance, and transcendence.[48]

Although Unifrutti could be considered an "accidental tourist" in the whole terrain of values-driven and inclusive enterprises, the internal logic that brought it there was evident in the manner in which it pursued the twin objectives of profitability and social responsibility. It might still have had the choice to stick to the standard profit-driven model, but once it made the decision to take on the risk of investing in a war zone, it irreversibly committed itself to a trajectory where trust is the principal currency. The build-up of this trust in the form of social capital allows it now to reap its many benefits in the form of reputation, high company morale, security from attacks, and resilience amidst the otherwise crippling effects of climate change, plant disease, and financial crises.

8. Conclusions

The long history of Unifrutti chronicled in this study shows the origin of the inclusive business practices the company lives out today. During the many interviews among the workers of Unifrutti, one common remark encountered was that of the company just being any normal company that aims to be productive and profitable. Since inclusive business practices gradually evolve with the development of a certain type of culture, it is understandable that people would not immediately consider their acquired behavior as being anything out of the ordinary. And yet, in many ways, Unifrutti is exceptional: in its practice of open contracts; in its labor practices, where contractual workers are a small minority; in its participatory conflict-resolution mechanisms; in its high environmental norms; in the priority given to regular values formation; and finally,

[48] These, in turn, can be further classified to a cluster of moral traits (called "strengths"): wisdom/knowledge (creativity, curiosity, open-mindedness, love of learning, perspective), courage (bravery, persistence, integrity, vitality), humanity (love, kindness, social intelligence), justice (citizenship, fairness, leadership), temperance (forgiveness and mercy, humility, prudence, self-regulation), transcendence (appreciation of beauty and excellence, gratitude, hope, humor, and spirituality) (Peterson and Seligman 2004, 29–30).

in its commitment to direct investments into the conflict areas of Muslim Mindanao whenever possible.

The company did not set out to be virtuous, but a number of key circumstances triggered the transition towards ever more inclusion because of the need to build confidence in contexts where trust is extremely scarce. The process of confidence-building, in turn, churned out practices that led to a redefinition of company values. Once practices became associated with values, they no longer were incidental or one-off actions but grew into more lasting behavior that shape the corporate culture. This continuous process of confidence-building and critical reflection, which is so important for learning, gradually changed their immediate environment as the increase in social capital facilitated the building and maintenance of new relationships.

In this sense, the entry of Unifrutti in the Bangsamoro region built a level of social capital that likewise benefits the succeeding entrants into the area because of the higher degree of trust that has been fostered. This is a textbook example of positive externalities that help address the institutional voids due to market failures. The Unifrutti narrative therefore provides important insights on how efficient markets emerge. At a critical level of social capital, trust becomes a matter of course, leading to more and more practices of mutual support, transforming informal norms into formal institutions, such as guilds, associations and governments.

What does the Unifrutti story say about the relationship of risk and social capital? Unlike its competitors, the company has never once been attacked or sabotaged by any of the parties involved in the conflict in Mindanao. Since conflict stems from fear, and fear from the breakdown of trust, Unifrutti's history of confidence-building took them out of that vicious cycle, which is the principal font of risk. Investment in costly security measures are futile when the company is hated not only by its workers but by the community surrounding it. Paying for insurance against the damage caused by terrorist attacks, on the other hand, may compensate the financial losses suffered by the company, but they could never provide any durable protection from future assaults. Unifrutti's investment on social capital, instead, has proven to be most effective security measure of all. The problem is that a company who would want to take on this approach cannot build social capital overnight. Instituting a change of policies, such as fair labor standards and more responsible environmental practices are first steps, but it takes time for these changes to be seen as credible. They certainly will be perceived as insincere if the company's vision and values remain unchanged.

The inclusive business model of Unifrutti has progressively evolved also due to the reciprocity of its partners. The Unifrutti narrative presented in this study is thus starkly incomplete because half of the story is the transformation of its main partner communities. Perhaps one of the reasons why it remains to be so difficult to convince investors to reassess their risk calculation in the Bangsamoro is the lack of awareness of transformational power of business partnerships rooted in trust. Documenting this is the next challenge to be faced.

Annex 1
Key Elements of the UGP Transformational Business Partnership Model

(1) It is an "Unincorporated Joint Venture" between the small farmer/coop/entrepreneur and the corporation. In a typical partnership, the parties have equity shares within the company. No company will accept a "minority" equity position to a majority small farmer/coop/entrepreneur in a company. On the other hand, if the small farmer/coop/entrepreneur are in the minority, they will likewise be at "the mercy" of the majority shareholder. It is an inherently unequal relationship that generally will end in one party taking the advantage over the other.

(2) In the TBP, the parties do not enter into a corporate partnership, but each maintains 100% control of their own corporations, with each corporation investing in a portion of the business enterprise. Each portion depends on the other to make the enterprise work. The business investor cannot get a return on his corporate investment unless the small farmer/coop/entrepreneur partner also does well—and vice versa. Each is dependent on the other, but neither is able to dominate the other. It is a relationship of equals between the large corporate investor and the small farmer/coop/entrepreneur.

(3) The Corporate Partner invests in "common service" facilities such as airstrip, aerial spray facilities, main water supply, and packing houses. These are the facilities that either require large economies of scale to justify (aerial spraying), are technically difficult to maintain (main water source pumping and filtration systems), or require constant investment for upgrades (like packing houses that must meet changing market requirements). The Corporate Partner must also make the investment of securing land leases, which requires large multiyear advances. This assures that land can be consolidated into minimum 250-hectare blocks, and that the integrity of the plantation is maintained. However, the Corporate Partner then provides the land at no cost under a Usufructuary Agreement to the Farm Producer Partner.

(4) The Farm Producer Partner (small farmer/coop/entrepreneur) provides for all the "in-field" investment—the land development, initial planting, growing crop, and in-field infrastructure.

(5) The Corporate Partner provides Technical Services to the Farm Producer Partner—which begins with training and continues through the life of the enterprise providing the latest, adaptive technologies—at no charge—as this is part of its contribution to the enterprise.

(6) The Corporate Partner will handle purchasing of all major inputs—taking advantage of consolidating its larger volumes to obtain volume discounts of quality checked inputs. The lower cost of these inputs is passed directly onto the Farm Producer Partner who will be the actual buyer of the inputs, so there is no mark-up or "admin fee" of the corporation on top of the supplier's input prices.

(7) The Corporate Partner will provide free accounting services through its Social Amelioration Program (SAP) systems. This will allow the data entry of labor and inputs with on-line accounting—providing for real time daily, weekly, monthly production and financial reports.

(8) The Corporate Partner will provide services to assure Quality Control from the field through the packing house, so that premium quality products can be produced for the markets to achieve higher prices with more stability.

(9) The Farm Producer Partner manages everything inside the field, assisted by the Technical Services provided by the Corporate Partner. Labor management is especially critical to maximizing yields. In agriculture, production costs are almost fixed, so the greatest impact on cost reduction per unit (per box) is attained by increasing yields. The real authority capable of managing labor in these undeveloped areas are their own traditional leaders. The most labor efficient farm, producing the best quality bananas is in Amai Manabilang, Lanao del Sur, operating under the management of the traditional leader, supported by the corporation.

(10) The Corporate Partner is responsible for finding the right mix of buyers in the market to maximize the bunch profile of each farm for the markets in the Middle East, Japan, Korea, and China, balancing the risks of each market, and getting the best prices from each market. The role is as a sales agent for the business enterprise, so all market pricing is transparently reported back to the Farm Producer Partner.

(11) The Corporate Partner will provide a Minimum Guaranteed Price which is sufficient to cover production costs and loan amortization. Both parties will share in the profits above this pricing level, with 55 percent of the market price going to the Farm Producer Partner, and 45 percent going to the Corporate Partner. This is a genuine Profit-Sharing partnership.

(12) The 55 to 45 percent ratio of the pricing split will provide an equal rate of return to the proportionate investment of both parties.

In summary, both Partners provide what they can do best to the business enterprise. One cannot succeed without the other. Both share in the profits generated by the business.

The negative weaknesses of financing small farmers/coops/entrepreneurs have been fully addressed. While the opportunity to share in profits is a positive, the driver of management performance is powerful.

Annex 2
Tables

TABLE A1 • Poverty incidence statistics, 2000–2015

	1991	1997	2000	2006	2009	2012	2015
National	34%	34%	33%	27%	26%	25%	22%
ARMM	31%	63%	62%	47%	47%	56%	54%
Maguindanao		42%	67%	55%	52%	64%	57%
Paglas			61%	47%	48%	76%	53%
Lanao del Sur		56%	59%	45%	57%	74%	72%
Bumbaran			77%	34%	38%	63%	54%

Source: Philippine Statistics Authority (PSA)

TABLE A2 • Percentage change of poverty incidence, 2000-2015

	2000–2006	2006–2009	2009–2012	2012–2015
National	–19%	–1%	–4%	–14%
ARMM	–24%	1%	18%	–4%
Maguindanao	–18%	–4%	22%	–10%
Paglas	–23%	2%	58%	–31%
Lanao del Sur	–25%	27%	30%	–3%
Bumbaran	–56%	11%	66%	–14%

Source: Author's calculations based on Philippine Statistics Authority (PSA) data

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