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Business Operations in an EOC Firm: the experience of Bangko Kabayan

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Good afternoon, Ladies and Gentlemen. It is an honor to have been invited to address you today on the subject matter of Corporate Social Responsibility (CSR) and the Economy of Communion (ECO) paradigm, with particular focus on how an EOC enterprise, Bangko Kabayan, Inc. operates.

This morning, my colleague, Ms Tita Puangco, talked about how, for an EOC company, CSR is not an added element to an EOC firm's activities or practices. Rather, it's basic principles of "embracing responsibility for the impact of its activities on environment, consumers, employees, communities" and all else embraced by the term "stakeholders", encouraging community growth and development proactively, deliberate inclusion of the public good in corporate decision-making and honoring the triple bottomline: Planet, People and Profit – all these are intrinsic to the life of an EOC enterprise.

EOC companies and CSR

The Economy of Communion firm, regardless of the type of business it is in, by allocation of its profits towards answering the needs of a community in need and helping to build structures to spread a culture of generosity and giving, and even in its commitment to grow the business so it could provide more employment and keep generating profits at the service of others - already embraces the concept of the triple bottomline. But perhaps, its unique contribution lies in its emphasis on building relationships and community – both within the enterprise and in the bigger external environment – while pursuing social and financial goals. EOC companies live CSR not via community projects in far away locations, financing projects for people who remain anonymous to them. Rather, the aspect of **proximity** becomes a necessary ingredient in their activities. Further, a goal of arriving to a relationship of **reciprocity** becomes a benchmark, as we believe that only in such a relationship is the ultimate vision of unity and universal brotherhood realized.

The experience of Bangko Kabayan

Allow me to further illustrate by way of talking about the experiences of Bangko Kabayan, Inc. (BK) a rural financial institution located south of Metro Manila. As majority owners of BK, my husband and I decided to adhere to the EOC when it was first launched by Chiara Lubich in 1991. She spoke of a new economic paradigm – the Economy of Communion – where business enterprise profits are at the service of the poor, for the further development of a culture of giving and for reinvestment, to ensure the stability and continuity of the business itself. More than just the destination of profits, the economy of communion offered a more

defined way of establishing relationships within the enterprise itself, among the collaborators, stakeholders, government regulators and even competitors.

At that point, we had just brought the bank on its feet and were satisfied with its viability. Our needs were modest and our income sufficient. But hearing Chiara's challenge, we understood that it was not enough to be comfortable in our own small world. By **growing the business**, we could provide more employment, serve a larger public, generate more profits to be shared to the poor. We undertook an expansion and established 8 more banking units all over the province of Batangas. In this effort, we were helped by another entrepreneur (none other than our psekuer this morning, MS. Tita Puangco) who, as her own response to this challenge, set up a management consultancy to help businesses professionalize and deal with problems brought about by an ever-increasing competitive environment. With the help of her firm, Ancilla, we prepared ourselves and the organization to overcome the challenges of growth in a way that would not let us lose track of our vision of serving the community.

This initial experience of transformation to an EOC enterprise, aided by another who had the shared vision, already illustrated reciprocity and unity, not only on personal levels (between Tita and us, for example) but even on the institutional level of between and among enterprises. Today, this continues to happen and in particular context, within the industrial parks present in some parts of the world (Brazil, Italy, Eastern Europe, etc.) where EOC companies locate together to make a further experience of this kind of communion between them.

Another characteristic – the presence of Divine Providence even in the developments of business goals – was also present. My husband and I did not have adequate capital to keep up with the growth that occurred in the first years of BK's expansion – and our minority partner, instead of taking the opportunity to take-over the enterprise by providing the needed additional capitalization and acquiring more equity, chose to lend us the money we needed, payable in our own terms and with a very reasonable interest rate.

In time, the bank resources grew through the continued patronage of the local population who felt the sincerity of our service and with the help of managers and employees who worked hard, feeling the enterprise to be their own and an extension of their family. We continuously looked for ways to share the benefits with all collaborators – the employees by giving above average wages, health and life insurances, profit-sharing schemes and even stock options in order to concretize the desire to make each one feel he or she was truly a part of the enterprise. We strove to give personalized service to our clients, even to the extent of teaching an illiterate client how to open a checking account to help in his small business, or a small livestock operator through a feasibility study to understand if he should borrow money for additional capital to make his business grow or not. In everything we did, we kept in mind that **man was at the center of**

the enterprise –not profit, not growth – but MAN – whether he was an employee or a client or another stakeholder.

Asian Financial Crisis in 1998

In celebrating our 40th anniversary in 1997, we adopted a new business name – BANGKO KABAYAN (BK) and we were beginning to ready ourselves for expansion outside the province of Batangas and into the other areas of Region 4. The bank had attained phenomenal growth (from P50M resources in 1991 to P1B in 1997), largely due to increased depositor confidence it had assiduously courted over the years through focused customer-service and relationship management. However, as the 1998 financial crisis took its toll in business failures, BK realized that its credit processes were not that developed so that the bank had invested in loans without the proper assessment of its credit risk and without sufficient knowledge and assessment of the capacity to pay of its borrowers. It had transported the collateral-dependent, pawn-shop type of lending techniques of the old system into bigger loan amounts, for projects the bank had insufficient know-how to assess.

A huge amount of its loans therefore, went into default. Fortunately, they were at least backed by real estate which the bank had then to foreclose and begin selling, if it were to ride out the crisis as a viable financial institution. All the focus was then diverted into fighting the crisis – collecting past due loans, tightening credit to almost risk-free clients, managing costs in the light of decreased business volumes and liquidating a huge amount of real estate acquired assets. Today, these concerns are still very real, and the disposition of acquired assets remains a concern of the bank as a regulated financial enterprise, particularly facing increasingly tougher regulations imposed by the BSP in its effort to strengthen the banking system.

With the situation of reduced volumes of business, it was the stable deposit base, cultivated and nurtured with genuine relationships of reciprocity with clients through the years that saved the day for BK in terms of liquidity. Still, the bank was in dire need of increasing its loans or it would run losses for a good number of years.

The choice of relevant products and ethical practices

Some options were examined. A few banks grew in spite of the crisis through salary and consumer loans for teachers. BK applied for accreditation from the Dept. of Education in charge of the program, and was approved. However, some bureaucrats sought for themselves an accommodation fee in addition to the legal amount. This “extra commission” or type of “relationship-building” was a common industry practice to ensure collection. But owing to the earlier commitment to the philosophy of EOC, which, among others, entailed the ***commitment to transparency and ethical practices***, the bank did not pursue the offering of this product and continued the search for something more

consistent with its chosen vision and mission as a development catalyst in the countryside.

Meantime, microfinance was becoming a buzz word in the financial sector, although for many years, only Non-government organizations (NGOs) were delivering the service. It entailed offering small loans ranging from P2,000 to P150,000, without hard collateral, to the so-called “unbankables” or lower income segments of the population. As it was commonly seen as a social program, it was the IRB Foundation that initially explored lending to a pilot group of marginalized women in the farther areas (from the center of the towns).

Within just two years, however, the amount originally allocated for microfinance (Php 150,000 or \$3000) tripled, and customers grew to 500. This situation, validated by the shared experiences of some generous rural bankers who pioneered in the Grameen-type of microfinance, encouraged Bangko Kabayan to convert this program into a regular bank product.

This decision required serious management and institutional commitment to fundamental changes in many areas of its operations: hiring more people; giving more training, especially to account officers whose jobs required long hours in the field; designing new procedures adapted to microfinance’s small but frequent transactions; investing in computer hardware and software to assiduously track delinquency; most of all, shifting mindsets from the traditional emphasis on collateral – a habit formed by over 30 years of traditional rural bank lending – to recognizing other forms of capital (i.e. social capital built through proximity and constant contact with the clients) and feeling secure with them.

Again, the EOC philosophy helped us undertake these organizational changes – helped us **persevere and keep faith** in what we were doing, where we were heading to. The figure of the neighbor in need and the development of the community we were advocating urged us on in spite of the difficulties we encountered.

These loans gave microentrepreneurs much needed support and confidence to grow home-based businesses, recognize and exploit other opportunities to earn more income. As their business grew, they supported themselves and their families, and earned self-respect. As their business thrived, they learned the discipline of repaying their loans and managing their earnings. As their earnings grew, they learned the value of savings and began to take their financial destiny in their own hands.

Through regular group meetings held by their account officers, the largely women client-base learned to support each other – positively through encouragement, and negatively through compliance by peer pressure; they experienced the power of unity and discovered that in unity there was strength.

Speaking with one voice, they learned to lobby local officials for services they deserved.

Reciprocity and social capital

As the bank's customers changed, they in turn changed the management's understanding of the business. The rural small micro, small and medium entrepreneur became the identified, preferred client of Bangko Kabayan and his needs the basis of studies about what other type of financial services the bank should offer. It became a stated objective to provide him or her – through the bank's products and services – the opportunity, the means and the tools to become productive, self-sustaining and ultimately, financially independent.

This experience confirmed the intuition that when a business is transformed into a means to serve man, the business sets in motion the process that creates not only an incalculable amount of good, but also the very mechanism that ultimately ensures the business's own survival, growth and prosperity.

By helping the unbankable customer today – the high risk borrower with no access to loans – break free from the chains of poverty, the bank enables him or her to raise his or her standard of living and buying power. When he does, today's unbankable customer will metamorphose into Bangko Kabayan's preferred client tomorrow, as he acquires for himself, his family and his enterprise more and more of Bangko Kabayan's products and services, and becomes Bangko Kabayan's center of influence for his growing circle of employees, friends and associates.

Today, In fact, this is already happening as Bangko Kabayan's clients start to give back and respond in kind. In a recent experience when the local rural banking sector experienced a weakening of public confidence brought about by the closure of two rural banks in the same province who engaged in fraudulent practices, it was with the help of the bank's microfinance clients who are present in the communities where the panic was catching fire, that helped counter the false stories that all rural banks, Bangko Kabayan included, were going to close. Born of this reciprocal relationship, this 'return on social capital' accounted for BK's ability to ride out the crisis with full confidence.

Communion-based action

In the same event, as EOC had also taught the management of Bangko Kabayan to **treat all stakeholders, competitors included, with respect and transparency**, the bank's officers were able to mount a common campaign with the cooperation of all rural banks in the vicinity, and in full transparency, face the local government officials in the affected area, to gain their support in the effort to contain the public's instinct to withdraw its deposits from rural banks. We could

have mounted a counter campaign by ourselves as BK is the largest and dominant rural bank in our region. However, the Economy of **Communion** precisely advocates finding solutions to problems and conflicts **together** with other stakeholders – which allowed us the creativity to turn to this type of response to a problem affecting all in the sector. It successfully arrested the panic withdrawals and everyone was happy for this experience of working together for the common good – not only of the rural banks concerned but also for the local communities who would be severely affected if the rural banks ceased to operate in their localities.

Other guidelines for EOC companies

Aside from keeping man at the center of the enterprise, fostering genuine relationships among all stakeholders, compliance with ethical practices (not just legal because even legal practices can be unethical), other guidelines for EOC firms are respect for environment, conservations of resources and energy, continuous training and constant communications.

In BK, for example, we try to do our part in preserving resources by consciously trying to reduce the use of paper. And if we have to, we encourage using it twice (or what we call the X-file practice of writing/printing at the back of a used document). We have a continuing “Red Earth” program that tracks and rewards operating units / branches which are able to reduce electrical consumption without sacrificing customer satisfaction. Management also tries to limit overtime or calling workers to week-end meetings, except for the most essential moments, always keeping in mind the temporariness of such practices.

Training programs for both rank and file continue, to help each grow professionally but also in a wholistic manner.

The culture of Giving

We are particularly aware that as an enterprise, we have adopted the vision of transforming and evolving into a value-driven organization. It is not enough that the owners or the top management acquire the practice of sharing and giving – but that we are able to share with the rest of the organization how the EOC works and how Divine Providence accompanies us in various moments of our enterprise life.

We hold general assemblies at least twice a year – as it affords us the opportunity to reiterate our Vision, Mission and Objectives (VMO) to everyone, especially the younger members of the enterprise that keeps growing. We try to integrate activities such as tree-planting in the watershed, or clean-up of rivers and waterways – in these occasions of getting together to increase awareness and participation in the effort to take care of our environment. We let everyone know that in choosing to have a simpler Christmas celebration for ourselves, we

were able to have enough to feed 1000 children who had never seen hamburger in their lives. And we don't donate the money. We undertake the activity ourselves. It is the *proximity* that allows the transformation to take place in each one.

After years of serving as the community's focal point in collecting aid for victims of natural calamities and cooperating with various agencies in relief operations, we have slowly been able to inculcate the culture of giving amongst our managers and employees. In turn, they have surprised us by carrying it several steps further. When one business unit fails to make its performance targets and is excluded from the profit-sharing bonus, we have seen the practice of others deciding to share their own unit's incentives with those who did not receive anything. Or of branches who divide the branch cash awards to include service personnel who are not part of their plantilla. A young girl who works as a microfinance account officer and whose pay includes an incentive portion (based on the achievement of her targets) voluntarily shares this incentive with the teller and bookkeeper, acknowledging that they too are a part the service delivery her clients enjoy.

Divine Providence in an enterprise

Though we had personally experienced the providence of God in our personal lives, it was a different moment to recognize Him in a business environment – and help our colleagues likewise recognize His presence and intervention in our enterprise life. But maybe because we have had to undergo several crisis – bank runs, panic withdrawals, even downsizing at a certain point – and we've made it a point to try and resolve these collectively, sharing our thoughts, our turning to prayer before beginning and when all else fails – with our closest managers who in turn, pass down the stories to everyone – this type of open communications enables everyone to participate in our collective ups and downs, enterprise failures and triumphs – just as one family.

One final example: two years ago when we faced that panic withdrawal which saw us lose some P100M in deposits within a month's time, I mentioned that we banded together with all the rural banks in the area and presented ourselves to the public via a local government hearing. There we assured them that all other rural banks in the province were stable and should not be suspect. A senior official of our central bank even went with us and confirmed this fact. In other words, we assured the public that no other rural bank was going to close anymore – to put a stop to the rumors that were going around that rural banks were unstable.

Unknown to us, there was in fact, another rural bank, the next biggest one after us – owned by a prominent and respected family in the province – which had not been able to withstand the withdrawals and was, in fact, in danger of being shut down as well. The owner of that bank called up my husband and when Francis

called up the second-highest official in the central bank, he confirmed that there was a distinct possibility that they would have to close that bank.

We had done everything we could...prepared our credit lines, secured collaterals we could use to avail of emergency loans with the central bank, etc.- to prepare for the backlash. But over-all, we realized how much our credibility would be damaged – as a whole sector –and how much we had risked by going all together in front of the public, to stand for each other. If one of us would fall, all the rest would be dragged down as well.

After an emergency planning session, we asked our excom members to pray together because things were out of our hands.

Very early the next morning, Francis again received a call from the other bank's owner. He said that in a midnight deal, they were able to sell their bank to a commercial bank and would come out with an announcement that would end all speculations and establish the stability of their bank. As we went to office that morning and shared the good news with our other managers, one of them remarked "That's Divine Providence, isn't it?"

This recognition, this gift of "new eyes" with which to see and understand what happens around us even in the life of an enterprise – as fruits of relationships, human and Divine – spreading throughout the organization, this too, we recognize, as a fruit of the presence of the Divine in Bangko Kabayan.