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## **Twilling Bata-Bata into Meritocracy: Merito-Patronage Management System in a Modern Philippine Corporation**

Mari Kondo

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# **Twilling *Bata-bata* into Meritocracy** **Merito-Patronage Management System in a Modern Philippine Corporation**

This article presents a pioneering in-depth study of a modern Philippine corporation. By revisiting the familiar patron-client system from the perspective of a detailed management analysis, this study provides new insights. It finds that, in order to operate effectively in the Philippine context, the corporation under study has twilled patron-client relations into meritocracy and developed a hybrid type of management system, which is referred to as merito-patronage. This article analyzes why the interweaving of the patronage system into meritocracy is a rational choice in the Philippine business context. It describes how a business organization tries to maximize the benefits of the patron-client system, while minimizing its disadvantages. By exploring the wider implications of merito-patronage, this article demonstrates the importance of management studies and its potential contributions to Philippine studies.

**KEYWORDS: BUSINESS ORGANIZATION · MANAGEMENT · PATRONAGE · MERITOCRACY · INFORMAL GROUP · VARIETIES OF CAPITALISM**

In the Philippines the patron-client system, when practiced within a business organization, is often referred to as *bata-bata*. The patron-client system is considered as one of the key characteristics of Philippine society. Oft discussed and debated upon, it is routinely associated with nepotism, or, as the *Oxford English Dictionary* (1998) puts it, the “unfair preferment of or favoritism shown to friends, protégés, or others within a person’s sphere of influence.” When linked to unfair practices, which implies the inefficient use of talents within society, the patron-client system tends to acquire a negative connotation. Particularly in the Philippines, patronage is considered as one of the root causes of the relatively corrupt governance system that has contributed to the extremely skewed distribution of wealth. As such a strong negative sentiment, almost an emotional one, is associated with the patronage system, especially when it is exercised in the public arena. This article discusses the functions and rationale of the patron-client system from the perspective of business management, by understanding its twilling with a management system based on meritocracy in a modern Filipino corporation.

### **Meritocracy and the Modern Corporation**

The separation of management from ownership characterizes modern corporations, which are offshoots of industrialization. Industrial production requires the organization of numerous complex tasks. Further, to survive competition, the organization and coordination of these tasks must be efficient and sophisticated. To this end, the management of a modern corporation requires the installation of executive managers and a sophisticated corporate bureaucracy. Business and management studies were institutionalized in the United States and have evolved alongside the development of modern corporations in that country. Business and management studies have sought to provide professional managers with what they need to run corporations. Reflecting the value of meritocracy on which American society is built, such studies have assumed corporate management by meritocracy as a principle—even as nepotism is far from unknown and even as corporate corruption and scandals have been widely recognized in the United States. As a consequence, principles of meritocracy are equated with the management of modern corporations.

Corporations are important institutions in any modern society in the sense that they do not only produce goods and wealth but also function as vehicles for developing certain types of human resources, new ideas, innova-

tions, technologies, popular cultures, and even political power. In the case of the Philippines, where some sixty families or so control or have vast influence over political and economic resources (for example, Krinks 2002, 53), studying modern corporations is important because these function as the elite’s main apparatus for the accumulation of wealth and power. How the elite, as owners and Chief Executive Officers (CEOs), try to run their businesses will certainly relate to how they, as influential state actors, try to run the country. However, despite the significant role of corporations in Philippine society, studies of the Philippines have mostly overlooked the specificity of their organization and management. By taking the old and familiar patron-client system as topic and offering a new appreciation of it, I hope to demonstrate how management studies may offer a clearer understanding of the complex specificity of Philippine society, social relations, and politics.

Although the basic institutions in Philippine business, including the Corporate Code, were originally introduced by the United States when it colonized the Philippines during the first half of the twentieth century, the Philippines charted its own path in business and developed a version of capitalism different from that of the United States. Some have labeled this capitalism “ersatz” (Yoshihara 1988) and “crony” or “booty” (Hutchcroft 1998).

If we adopt the framework used by Hall and Soskice (2001, 6–21), we can say that Philippine capitalism, although not so developmentally oriented, is a coordinated capitalism, in the sense that power and influence on markets for goods, finance, and human capital lie in the hands of elite business that may sometimes ally with international powers and institutions (Bello et al. 2005). These markets are frequently supported by institutions, which allow the concentration of wealth among the powerful, and hinder incentives for technological development and innovation. Due largely to the inefficiencies and other problems resulting from the skewed allocation of resources, the Philippine economy has been stagnant for a long time.

In contrast, markets largely coordinate the liberal capitalism of the United States. That country’s strong competition policy ensures that market mechanisms function to effect adequate setting of standards and technology transfers. Its policy toward publicly assessable information ensures the functioning of active financing mechanisms mainly through the capital markets, while its deregulated labor market ensures low costs for hiring and firing, which complement the dynamic competitions between markets for goods and finance. Unlike the U.S., Japan and Germany’s respective capital-

isms are socially coordinated (Hall and Soskice 2001, 21–36). For example, Germany has a system of intercompany relations that allow cooperation, standard-setting, and technology transfer among corporations; a corporate governance system that allows long-term financing without publicly assessable information; and an industrial relations system that assures employee cooperation in companies as well as wage moderation.

Or, if we adopt the analytic model of the business and management systems developed by Redding (2005), which emphasizes the rationale of firms within society, we can declare that the ultimate purpose of business in the Philippines is to ensure the wealth and survival of the owner's family, while the entire business system of Philippine capitalism is geared to addressing the interest of elite families.

This article is not intended to be a full elaboration of Philippine capitalism and its business and management systems; however, it will show how Filipino businessmen continue to regard modern corporations in the United States as their model and, consequently, believe that they should run their corporations by putting a premium on meritocracy over nepotism. They have done so to the point that they have developed a hybrid management system, which I term “merito-patronage.” At least, meritocracy-based professional management is what they claim, and what several business leaders and owners of businesses whom I have met in the Philippines always emphasize when we talk. In contrast, and strangely enough, I have never heard expatriate managers of multinational corporations in the Philippines argue thus.

### Inquiring into the *Bata-Bata* Relationship

This article presents a case study of a large cement plant in the Philippines, a modern corporation owned and run by Filipino businessmen in a Central Luzon province. Despite the emphasis on professional management, the owners and their friends actually manage the corporation as top executives, that is, as president, chairman, and CEO. Further, despite the emphasis on meritocracy, what prevails and what is considered as “the way of life” of managers and salaried employees in the plant is the *bata-bata* relationship, essentially a patron-client system.

Jocano (1990, 102–3) defines the *bata-bata* relationship as follows:

The term *bata* is a kinship term meaning “child.” In Filipino social psychology, however, it means “a patronized individual,” a “protégé,” “a

confidential man,” “a close friend,” “a loyal comrade,” someone you can call upon in time of need,” and so on. The *bata* relationship is reciprocal. As in kinship, it carries certain functional rights and obligations—some kinds of patterned expectations. In order that a *bata* relationship can be established, one of the actors should be in a subordinate position and the other in a superordinate position, explicitly enacted or impliedly considered.

It should be noted that *bata-bata* is a relationship between one individual and another, and not one between an individual and an organization. Thus, the relationship persists as long as the superordinate person has power, and the *bata* needs to be protected, regardless of the company for which the actors work.

The management-related literature on the Philippines has reported occasionally on the patron-client relationship. For example, Selmer and De Leon (2001, 137) refer to Amante (1993, 1994), and state that “the *compadre* nepotism ingrained in Filipino society is directly applicable to people management.” Meanwhile, Jocano (1990), an anthropologist, and Andres (1981; 1988; 1989), a popular writer on business management, have also written on patron-client systems prevalent in Filipino workplaces. Ortigas (1994), for her part, has offered a psychological explanation for people's dependency on patronage that is prevalent in Philippine organizations by proposing the term “psychology of poverty.” However, although these authors have acknowledged the existence of such relationships, their accounts have been neither detailed nor in depth. How the patron-client system actually operates within a business organization has not been clearly described. Also, these accounts do not identify how the patron-client relationship functions in the workplace, for example, in terms of motivating and monitoring employees, both of which are essential aspects in the analysis of organization and management.

In other disciplines, especially anthropology and political science, the patron-client system has been much debated. In the 1960s and 1970s, Hollnsteiner (1963), Landé (1965), and Scott (1972) illustrated how factions formed by families, kinship, and clientelism determined politics in the Philippines (Kerkvliet 1995). Describing the competition between two parties as having been made by “exploitive classes” to pursue “one and the same interest—the vested interests,” Wurfel (1988, 96–97) pointed out that par-

ty switching occurred because Philippine political parties were essentially “hierarchies of patron-client networks.” Over time, however, some scholars began to question the overuse of the patron-client system in explaining various phenomena in Philippine society. For example, Kerkvliet (1995) has pointed out the existence of two lines of thought by scholars on Philippine politics, namely, dependency and elite democracy. Although he did not denigrate the patron-client system completely, he nonetheless has called for the study of Philippine politics in a much more comprehensive manner. Sidel (1999), for his part, has written of “bosses” as predatory powerbrokers, and challenged the notion that patron-client relations have a peaceful, unifying function in Philippine life. Quimpo (2005) has reviewed recent interventions, including Franco’s (2001) concept of electoral clientelism and Weekley’s (2001) contested democracy, to argue in favor of the importance of considering the power of subordinate classes, or the perspective “from below.” These views seek to de-essentialize the notion of patron-client relations. We can conclude that, while the patronage system remains widely recognized as crucial to understanding Philippine society, there is a need to look at the different forces that shape society, including forces from above (like bossism), from below, those stemming from organizational efficiencies that this article aims to analyze, and from other requirements of societies at the time. We must then consider how patron-client relations take root in, as well as relate to, these other forces.

This article aims to shed light on the patron-client system from the angle of modern corporate management. By taking a functional view in the tradition of management studies, it aims to offer an added dimension to the understanding of the role of the patron-client system in Philippine society. I take the position of Milgrom and Roberts (1992) that the seemingly “inefficient practices,” bata-bata nepotism in this case, have their own *raison d’être* and are suited to the particular business environment that has prevailed over the years. Thus, my research questions are as follows:

How are bata-bata relations formed, and what advantages do they give to a modern Philippine corporation?

What are the disadvantages of bata-bata relations, and how does management try to control them while simultaneously taking advantage of the benefits attached to them?

What business environments specific to the Philippines use bata-bata relations?

The section that follows presents the theoretical framework that guided the study (a transactional view of organizations), and it is followed by an explication of the research methodology. The findings are then presented, beginning with (1) a description of how bata-bata relations are formed, and the advantages they offer to plant operations, as complementing meritocracy. Subsequently, (2) the experience of a rising star manager and how the bata-bata relation functions in tandem with meritocracy are discussed in relation to the nurturance of leadership. This is followed by (3) a discussion of the disadvantages that bata-bata nepotism creates in an organization, and the organizational measures taken to minimize these disadvantages. In light of these findings I briefly consider why modern Philippine corporations need to develop merito-patronage by maintaining the bata-bata system for the sake of organizational competitiveness. The conclusion summarizes the study’s findings and discusses implications of merito-patronage.

## **A Transactional View of Organizations**

For this study I rely on the theory elaborated by Milgrom and Roberts (1992), which takes a transactional view of organizations: a corporation is essentially a place where people transact or play a game. This view is particularly useful for analyzing corporate management and organization in Philippine society because it allows an analysis of interactions between the micro specificities, that is, Philippine corporations, and macro specificities, that is, Philippine economies (*ibid.*, 19).

In order to understand a game, one must know the players, the rules, and the number of times the game will be played, and so on. In a business organization, the players are the members of the organization: owners or shareholders, managers, salaried employees, rank and file workers, casual or temporal workers, and others. These players are seeking the fulfillment of their own individual goals, while at the same time playing for the achievement of collective goals. In the case of a business organization, these goals are mostly economic gains, such as salary and bonus for individuals, and profit and revenues for the business organization as a whole. Sometimes goals can include noneconomic gains, such as recognition within the organization or within a society. Oftentimes individual goals are conflicting with collective goals. For example, an individual may not want to work hard, but he may want to get compensations as much as possible. So he may pretend that he is working hard without much output. This is a moral hazard behavior.

In order to avoid such a situation, the organization needs to consider incentives to motivate workers, while at the same time consider how to monitor them. Motivation and monitoring of employees become critically important in analyzing management and organizations (*ibid.*, 126–97).

In the case of the employer-employee relationship, the rules of the game are employment contracts. Most employer-employee relationships are based on long-term contracts, especially in the case of regularized employees such as managers, salaried employees (*i.e.*, supervisors), and rank and file workers. However, it is not easy to write explicit contracts for a long-term game because the future cannot be predicted and most employment transactions involve complex tasks to be done over a long period of time. As a result, instead of explicit contracts, implicit contracts are often relied upon, and are the embodiment of the shared expectations of the contracting parties concerning their relationship. Actually, the implicit contracts' tacit nature is useful because it encompasses a broad, unarticulated, and flexible range. That is, in order to understand the rules of the game of a business organization, going over an explicit employment contract is not enough. Analysis of the implicit contract, which defines the relationships of the employer and employees, should likewise be undertaken (*ibid.*, 131–33).

Now let us consider how the informal group relates to the players and the implicit contract. An informal group in a workplace emerges in response to the common interests of members there. Usually these interests are related to members' economic, psychological, and social needs. There are several functions that an informal group provides to its members. First of all, it provides a worker with a sense of belonging and enhances his/her sense of identity and self-esteem. It also serves as a collective defense mechanism against forces, such as unfavorable orders by managers, which one cannot work against as an individual. In other words, informal groups can be considered as alliances among players within a corporation to attain their individual goals. These groups hope to influence the organization's decisions in their favor; hence we call them "influence groups." Clarifying how informal groups and influence groups are formed within a corporation is important (*ibid.*, 192–93). Patron-client relations are dyadic ties, thereby making them informal networks (Boissevain 1974). However, because patronage is well organized and permeates Philippine society (for example, Wurfel 1988), we can assume that patron-client relations are likely to function in a manner similar to an informal group or an influence group within Filipino business

organizations. Hence, we need to review the nature of informal groups in an organization further.

An informal group (or network) has several characteristics; depending on this mix of characteristics, an informal group (or network) can be helpful, harmful, or neutral to a formal organization. One characteristic is that it has a communication network that can quickly transmit important information to the right person, cutting the boundaries of formal work groups, without screening its contents. For example, if supervisor A needs help from engineer D of another department to fix a machine, the formal process may require many steps: A has to write a memo and send it to his manager B; if B approves, he sends it to manager C, who supervises D; and if manager C approves, he orders D to help supervisor A. However, if supervisor A and engineer D are close, A can just ask D to get the machine fixed immediately. This is an example of how informal groups can function to complement the deficiencies of a formal organization. At the same time, the informal communication network can hurt the organization by conveying inaccurate information or rumors.

Because an informal group (or tie) does not possess a formal mechanism to control the behavior of its member, two implications arise—which make up the second and the third characteristics of an informal group. The second characteristic is that the cohesiveness of an informal group can vary greatly, depending on factors such as group size, social status, and members' dependence on the goals the group tries to achieve. Because the patron-client relationship is a dyadic tie between two individuals, its relationship can be considered as cohesive, especially when the superior has a strong power. In the case of the cement plant examined for this study, bata-bata relations formed between the plant manager and his subordinates are considered cohesive and with a strong binding power.

The third characteristic relates to the fact that the employment contract is highly implicit. In reality, the rules prevailing in informal or influence groups often supplement the employment contract and become binding on the behavior of an employee. In the absence of a formal mechanism, an informal group needs to rely heavily on group norms to control the behavior of members. As a consequence, members who do not conform to group norms have to be penalized, because allowing departures from the norms threaten its existence. These norms may be more effective in binding employees than company rules. If the norms of an informal group fit well with the goals of

a formal organization, the informal group can be helpful for the company; but if the norms do not fit, the informal group can be harmful. Understanding the rules of the game of informal groups (or ties), especially influence groups (or ties), is therefore crucial to understanding the rules of the game in a business organization.

### Studying the Philippine Cement Corporation (PCC)

This article presents a case study conducted in one of the largest cement plants in the Philippines, which I refer to with a pseudonym: the Philippine Cement Corporation (PCC), located in Central Luzon. The study was conducted over a twelve-month period between 1998 and 1999, using the participant-observation method. In 2004 another three months were spent to follow up on the earlier findings. In order to supplement the findings of the field study, a survey was conducted among all regular employees of the PCC in 1998. Although the details of the survey results are beyond the scope of this article, two findings are relevant. One is that the *bata-bata* system is much more important for managers and key salaried employees than it is for the rank and file. The other is that, except for the *bata-bata* system, no other vertical informal network exists in the PCC. (In Japanese corporations vertical informal networks and/or informal groups include, for example, a college alumni group known as *senpai-kohai* or the senior-junior mentoring system.)

In-depth field research over a relatively long period was needed because a patron-client system is an informal relationship that twills into formal meritocracy to the point that it is hardly noticeable at first glance, or after a quick look at an organization. In the plant, it is almost taboo to discuss openly about relationships between *padrino* (patron) and *bata* (client). For example, in my interviews, the employees use the term *bata* frequently but hesitantly. The term *padrino* is not used frequently, but sometimes the word “boss” is used. Most of the time, workers do not use any specific term for their patron. Because of the negative connotations surrounding clientelism, they simply imply their relationship instead of explicitly naming it.

Because the selection of a research site is critical, I used the following criteria to select the organization for this study, one which can be considered representative of Philippine modern corporations: (1) it must be an industrial organization; (2) the owners, managers, and employees must be lowland Christian Filipinos, who constitute majority of the population, but not including Chinese or Chinese Filipinos, Spanish, and other ethnic groups;

(3) the size of the organization must be large, with many employees, so that common Filipino practices can be identified; (4) the organization must have a history of at least one decade so that their management practices are time-tested and stabilized; (5) the organization must be listed with the Philippine Stock Exchange, as proof of being modern in the Philippine context; and (6) the organization must be in the competitive market, or at least there should be a possibility of exit from the market, so that the organization faces market discipline in case it cannot be managed with certain efficiencies.

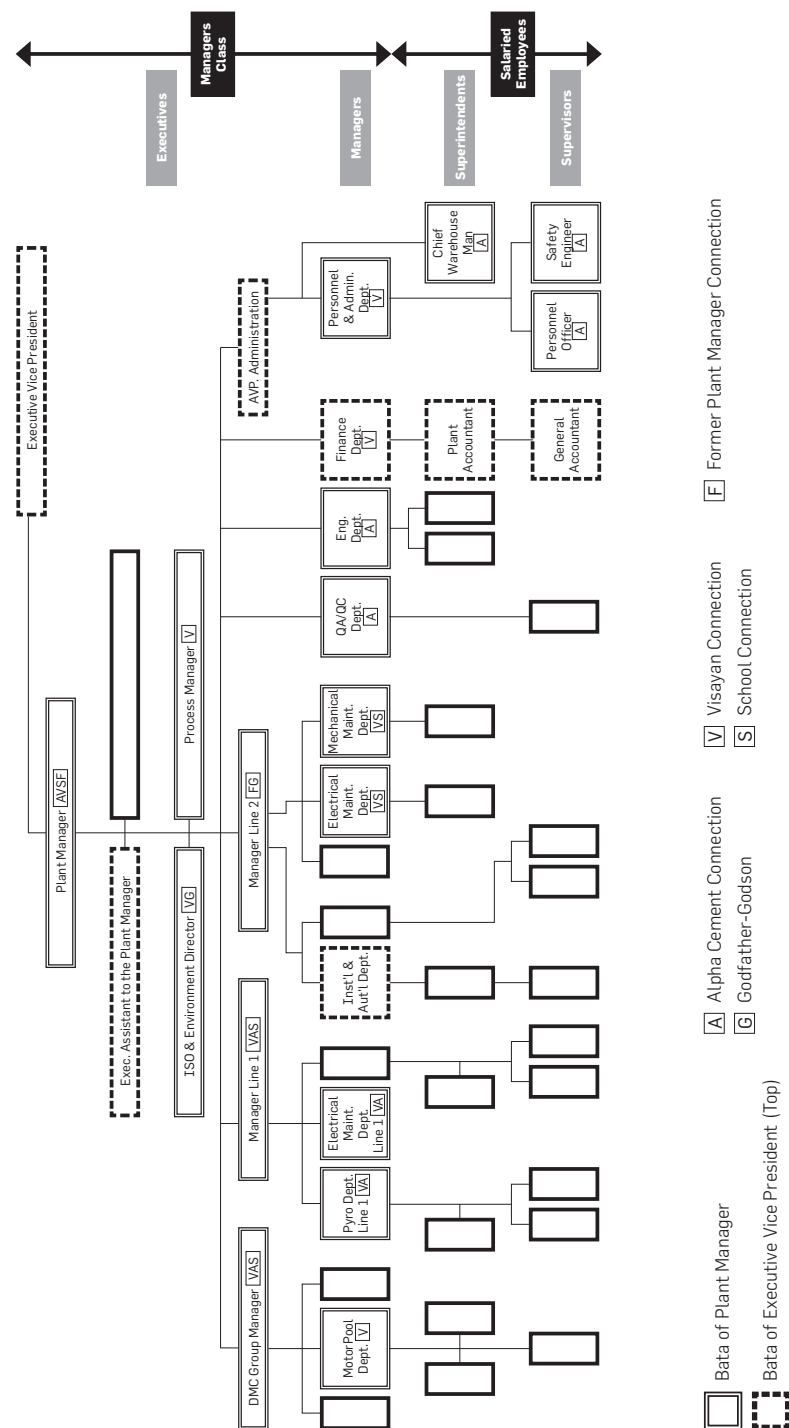
The PCC fulfills all of the above criteria. Although an independent legal entity, the PCC is owned and managed by ABC Holdings, Inc. (not the company’s real name), in Manila. The ABC Group is one of the top ten corporations in the Philippines, which although privately owned has some subsidiaries, including the PCC, that are publicly listed in the Philippine Stock Exchange. In 1998 the PCC had 379 regular employees—about half composed of salaried employees and managers, and the other half of rank and file workers who were union members.

Management practices evolve along with business environments. In other words, management practices evolve by being influenced by the environments under which they operate, while the evolution of management practices themselves influences their environments. Therefore, although the degrees vary, management practices differ depending on the industries, periods, or countries involved. Consequently, my findings may be more applicable to the traditional import substitution industries, rather than to those under the newly developed export-oriented service sectors (see Skene 2003 for differences in human resource management practices between the import-substitution and the export-oriented sectors). Moreover, the management practices noted in this article may change over time. It is also possible that patronage relations within a business organization may be found in many other places (see Martinez 2005 for the case of Mexico). However, considering the necessity of conducting an in-depth field study, and the difficulty of finding an equally in-depth study on patronage practices in different sectors, times, and places, comparisons across these parameters are beyond the scope of this study.

### Formation of *Bata-bata* Relations

In the PCC *bata-bata* relationships are critical among the managers and key salaried employees, in fact, more than they are for rank and file workers. In

**Fig. 1. Patron-Client Relationships Among PCC Managers**



general, Philippine labor laws heavily protect the regularized workers, particularly the rank and file, so that they are not fired and their wages are not lowered under normal circumstances. However, their chances for promotion are extremely limited, and there is not much need for them to rely on vertical informal groups to be protected, rewarded, or promoted. Rank and file workers are essentially peers and form a cohesive group among themselves, via the labor union.

In the plant the most influential bata-bata relations center around two individuals: the plant manager, who serves as vice president for operations, and the executive vice president (EVP), both of whom are professional managers in the sense that they are not relatives of the owners who stay in Manila. Rather, they are clients of the owners, although their bata-bata relation is beyond the focus of this article. As things stand the plant manager reports to the EVP, although basically their powers in the organization are almost equal given that operations account for the majority of the plant personnel.

The formation of a bata-bata relationship in a workplace takes various forms. The most frequent way is through professional relationships in one's current or previous employment. The bata-bata relationship, which is most apparent in the PCC, is a carry-over from previous employment. Figure 1 shows the background of PCC's managers who are the bata of the plant manager and of the EVP. The bata of the plant managers are in double lined boxes.

Most of the people hired by the plant manager to assume key positions in the plant are from his previous employment. The plant manager is an engineer, and most of his bata are engineers. They are his bata from his former company, Alpha Cement, before his transfer to ABC. Because of the plant manager's previous knowledge of these employees' professional capability and work habits, hiring one's bata is an efficient choice considering the large costs that would be incurred when the wrong persons are hired for critical positions. It should be noted that seven, or about one-third, of the twenty-three PCC managers have come from Alpha Cement, including the plant manager. In figure 1, they are coded as [A].

The EVP has his own set of bata in the PCC. They have come from a certain cement plant in the ABC group where the power of this top person is strong. The EVP is a CPA, and a set of employees from the finance and administration-related divisions of the ABC headquarters is identified as forming the bata of the EVP. In figure 1, they are shown in dotted boxes.

Officially and professionally, the two top managers are united by a common vision of achieving the organizational goals of the PCC. However, many workers have told me that there was some competition, or a power struggle, between them.

Sharing a similar background is also an important factor. Coming from the same region and speaking the same language facilitate the formation of bata-bata relationships. In the PCC most of the bata of the plant manager come from the Visayas, whence he comes. Including the plant manager, there are twelve Visayans among the company's twenty-three managers. In figure 1, they are coded as [V]. Some of the EVP's bata hail from central Luzon, from where he comes. Graduating from the same school also helps the relationship to be established. In the PCC the plant manager and two other managers studied at the Cebu Institute of Technology. In figure 1, they are coded as [S].

A padrino accepts a bata as a way of repaying his debt to his former padrino, who may request the former to "take care" of somebody. Because a feeling of *utang na loob* (debt of gratitude) continues for a long time, the current padrino accepts as a bata the person recommended by his own former padrino, thus returning the favor. Such a recommendation usually arises when one, a bata-to-be, is seeking a job. For example, one bata (M) of the plant manager has a friend (N) whose retired father was the former padrino of this plant manager in Alpha Cement. When M was looking for a job, N's father took the bata-to-be to the birthday party of the plant manager, who was then the assistant plant manager of Alpha Cement. The bata-to-be was introduced to the manager, and immediately the latter made a call to the personnel officer, asking him to come to his house and do something about hiring the bata-to-be. That is how their bata-bata relationship started in the plant manager's former company.

Another example of bata is the rising star among the PCC managers, the son of the PCC's former plant manager who had recruited the current plant manager. This rising star is competent and well qualified. However, his promotion has been quite rapid compared with the other managers. Now ranking next to the plant manager, he is expected to be a plant manager when the current one retires. (More on this case later.) Thus, from generation to generation, bata-bata relationships continue on the basis of reciprocity. (Among the plant manager's bata, two managers had been referred by the former plant manager. In figure 1, they are coded as [F].)

The godfather-godson (*ninong-inaanak*) relationship formed through wedding sponsorship is considered to carry more obligations than the *kumpare* (*compadrazgo*) relationship. (The kumpare relationship is that between the parents and godparents of one's child.) The godfather-godson relationship functions as a confirmation or reinforcement of a bata-bata relationship. When the bata gets married, he asks his padrino to become his wedding sponsor, that is, his godfather. Indeed, when two actors understand that a bata-bata relationship exists between them, the padrino expects to be asked to stand as a wedding sponsor of the bata.

The promotion of an inaanak may be interpreted as "favoritism" on the part of the godfather. Thus, some employees, particularly managers, do not want to reveal their ninong-inaanak relationships with the plant manager. Two managers who have ninong-inaanak relations with the plant manager are particularly high flyers among the bata managers. On my return visit to the plant in 2004, I learned that these two have been promoted to the positions of plant manager and acting plant manager. In figure 1, they are coded in [G].

The bata should have one and only one padrino, because "it is not acceptable to serve two masters at the same time." However, the padrino can have more than one bata; the especially powerful ones have many bata loyal to him. Although the bata-bata relationship is based on individuals, it can create *barkada* (group, gang, peer) relations among the set of bata loyal to a certain padrino. In the case of the Alpha Cement group, each one has a bata-bata relationship with the plant manager, but they also form a barkada among themselves.

### **Advantages of Bata-bata Relations**

Do these bata-bata relationships help the operation of the plant? As far as the plant manager's bata-bata relationships are concerned, these relationships provide various advantages to plant operation.

#### **1. Vertically Connected Informal Network ("Eyes and Ears")**

As a characteristic of an informal group, the bata-bata's efficiency as information network has been pointed out at the beginning of this article. Within an informal group, unscreened information can be transmitted efficiently to the right person, cutting across the boundaries set by the formal organizational structure. In the PCC the bata-bata relation is utilized fully for this purpose.

The bata are expected to function as the “eyes and ears” of the padrino, which are important for an informal information network as a way to complement the structural weaknesses of the organization. The hierarchically divided structure of the PCC organization makes it difficult for the plant manager to grasp what is actually going on in the plant. For example, employees’ moral hazard problems are hard to monitor. To cut across these hierarchies, the plant manager needs “eyes and ears” in the various positions of the organization so that he can be well informed about what is going on in the plant (fig. 2).

In the case of the PCC, the bata of the plant manager are strategically placed. First of all, many managers are his bata. At least fifteen out of twenty-two managers under him are his bata. Under the managers, the chief of the warehouse section is his bata from the Alpha Cement days. The plant manager needed this person, who is known for integrity, to watch the warehouse where many materials are kept and where thefts and abnormalities can occur easily. The plant manager placed another bata as a supervisor in the mechanical maintenance department. At that time, rumors had it that kickbacks occurred in this department; by placing a bata as supervisor the plant manager was able to have “eyes and ears” to monitor the unit closely. As a result, the mechanical maintenance manager was demoted and some of the salaried employees there were forced to leave the plant. Subsequently, the bata was transferred to the position of plant safety engineer, whose position now requires that he go around the plant to check if workers are complying with the safety rules.

Another bata is a personnel officer. The role of the personnel officer is to deal with the rank and file workers and the labor union, and safeguard all confidential files. Each section of the plant must have a monthly meeting that all regular employees of the section should attend. The section meeting is the formal venue where even a rank and file worker can express any complaint or concern to his manager. Both the safety engineer and personnel officer join every section meeting of the plant. During the meeting the safety engineer answers the workers’ safety concerns, while the personnel officer answers questions concerning personnel matters. Workers’ reactions to the working environment and personnel policy can be detected in the section meeting. From the personnel officer and the safety engineer who roam the plant and attend all section meetings, the plant manager can get information on all the sections of the plant, including the morale of the employees, their feeling toward their managers, and their other concerns.

In addition, bata-bata relations relay critical information to the plant manager. For example, when the PCC supervisors were contemplating to form a supervisors’ union in the early 1990s, a supervisor who was a bata of the plant manager quietly leaked the information to the latter. Interestingly, this supervisor used to be an organizer of the supervisors’ union at Alpha Cement. At that time, the supervisors’ union was intended for job security because Alpha Cement was facing operational problems and its closure was being discussed. In the end, this person went abroad and worked as an engineer at a cement plant. When he returned to the Philippines, he had difficulty finding a job in a cement plant. Eventually he was employed by the PCC, thanks to the plant manager. He developed a strong sense of *utang na loob* to the plant manager, and became his bata.

Whenever other supervisors try to form a supervisors’ union at the PCC, he would report it to the plant management. After the management learned about the attempt, one by one the key engineers pushing for the supervisor’s union were sent to a series of training seminars, which were conducted outside of the plant—causing delay in the formation of a union. At the end of the training series, these engineers were promoted. Consequently, they lost interest in forming a union. Had the attempt to form a union succeeded, it would have been a big blow to the plant manager’s career. He could have lost the trust of the ABC executives as well as his position.

## 2. Norms of Work Discipline

At the outset I pointed out that the norms that bind members of an informal group constitute one of its characteristics. The bata-bata relation can be used as a mechanism to impose on its members the rules that favor the organization. The example below demonstrates this point.

Even a well-established padrino sometimes has to undertake a highly visible task and succeed in it. This task usually requires a group of dedicated workers. The padrino relies on the bata, who function as a group of loyal soldiers. In 1994, a few months before the implementation of an expansion project, the plant manager hired a group of his bata to pursue the project. The plant manager personally chose these workers, because the expansion project would involve many contractors and moral hazard problems, such as kickbacks, were expected to rise. The plant manager wanted to make sure that the key people for the expansion project were those he could trust. Before the expansion started, the plant manager invited all of his bata who

would be involved in the project and told them, “I don’t have anything to be ashamed of so far, and I do not want to have anything to be ashamed of in the future. You should remember this point during the expansion project.” These words set a high moral code for his bata. They successfully completed the project of building the biggest cement plant in the country in record time. Many of them were promoted afterwards.

In this instance, the norms of the informal group, which encouraged hard work and personal integrity, were aligned with the objectives of the organization, indicating that the bata-bata relations work to the organization’s advantage.

### 3. Loyalty and Dependability (Group Cohesiveness)

Earlier it was pointed out that group cohesiveness varies widely across informal groups. The degree of cohesiveness depends on factors such as group size, social status, and the intensity of the members’ dependence on the padrino. A bata-bata relation basically has two individuals involved (the padrino and the bata), while the status of a bata-bata group depends on the position of the padrino. The higher the padrino’s position, the higher the status of the group. Even more importantly, the bata are better protected and have a better chance of getting a promotion, which directly relates to his family’s welfare and future, if he has a highly placed padrino. The case of the plant manager suggests that he has a cohesive bata-bata group. In the context of business organizations, this cohesiveness translates into a high probability that the bata will stay in the organization for as long as the padrino stays. Because of the bata’s loyalty to the padrino, a bata is hard to pirate.

When compensation at the PCC became less competitive compared with other cement plants that had been acquired by foreign multinational companies in 1998, the latter contacted some competent managers and supervisors at the PCC, including the bata of the plant manager. The bata did not leave the PCC because of their loyalty to the plant manager, but a competent manager who did not have a strong padrino was pirated. It was a painful loss for the organization, which had invested in his training, and because he moved to ABC’s direct competitor, taking with him all knowledge of the PCC’s strengths and weaknesses.

That some bata are hard to poach has a bearing on whom to promote to the core personnel of the organization. Because the bata are hard to pirate, it is a good strategy for the organization to invest in their training rather than in

the training of others who can be pirated easily. This approach is particularly salient in identifying the organization’s future leaders, as discussed below.

### Grooming a Future Leader through Merito-Patronage

A leader must be a symbol that projects the qualities that the organization would like to see in its employees. Since meritocracy is the formal promotion system that ABC explicitly communicates to its members, the leader should have three qualities that legitimize him to be a leader based on his merits: high educational attainment, sufficient work experience, and an indisputable record of contributions to the organization. The bata-bata relation functions not only as a selection but also as a grooming mechanism of the organization to create next-generation leaders, who possess the qualities that fit well with meritocracy.

To be groomed as a future leader, a person must have strong qualifications in terms of educational background at the time of entry to the organization. For example, Mr. Salvador Maralit Jr. (not his real name), a son of the PCC’s plant manager who retired in the early 1990s, had been groomed to be the future plant manager. He has an undergraduate degree in mechanical engineering from the University of the Philippines (UP) Diliman, a good qualification with which to start his career as a junior engineer.

According to Mr. Maralit, after graduation from UP in the mid-1980s, he initially wanted to join San Miguel Corporation, the largest private company in the Philippines. He went to see one of the ABC’s top executives, who was the PCC’s president, in order to ask for his recommendation so he could get a job in San Miguel. However, the top executive told him to join the ABC instead. Because his father was working as a plant manager of the PCC, he could not say no. He started working for the ABC. Mr. Maralit tries to emphasize, although subconsciously, two points in his narration of this incident. One is that, because he did not try to use his father’s connection to join the ABC, he is a well-qualified professional. The second is that, because he responded to the request of the ABC’s top executive, it is implied that the latter would take care of Mr. Maralit as a bata. This entry story resembles the entry stories of the bata workers and bata managers who entered the PCC through the professional brotherhood of the plant manager.

By having such a powerful padrino, Mr. Maralit faced some challenges in the plant. He was tested and scrutinized by others. He did not join the PCC because his father was the plant manager there. Instead, he joined

**Table. Merito-Patronage System for Grooming a New Leader**

CAREER STAGE	ENTRY LEVEL	→	QUALIFICATION	→	HIGHLY VISIBLE POSITION/PROJECT	→	SUCCESSOR/FUTURE LEADER
AGE	Early 20s		By early 30s		Late 30s or early 40s		Mid-40s onward
TITLE	Junior engineer/ Supervisor		Supervisor/ Superintendent		Manager of key department/ Line manager		Plant manager/ Corporate executive
TASKS	Learn operation and corporate system		Get Master's degree (abroad)		Succeed in visible task (e.g., business)		
FUTURE LEADER'S OWN GROWTH	Work hard Learn humility Learn how to deal with daily workers		Work hard Study hard Acquire new and advanced knowledge		Work hard Take risky project to stretch self Acquire managerial skill, leadership and experiences of wider scope		Work hard Transfer bata Win out of office competition
PADRINO'S SUPPORT	Employment Good initial assignment Training courses		Environment (time, job, assignment) Scholarship		Guidance/ Support for success Placement of veterans Elimination of competitors Instruction to other bata to support young leader		Transition of other bata from seniors/padrino → young leader gains a number of bata in critical positions of the organization

another ABC-managed cement plant near Manila, where his initial position was that of a cadet engineer. There is an unwritten understanding that a future leader candidate must join the organization as a low-ranked salaried employee. It is important for the future leader to be remembered by people “as someone who came out from the ranks” when he assumes the leadership position, so that the people below him will be motivated and will support his leadership. The future leader goes through initial training and other regular assignments, for him to understand ordinary workers when he has to lead them. He is likely to be assigned to mainstream departments, which are considered important to grasp the plant's operation: the pyro-processing (production), mechanical maintenance, and similar departments. He gains experiences and knowledge on the job.

During his initial years, it is important to gain additional academic qualifications. If time and situation permit, he may go to a night school to work toward his master's degree in a relevant field, such as engineering or business management. Mr. Maralit gained his master's degree in business administration from the Ateneo, a good night school in Metro Manila, in the late 1980s. He could obtain the degree because he was assigned to the cement plant near Metro Manila. In general, the padrino creates an environment conducive for a future leader to receive further education, for example, by giving a work assignment that does not require a night shift. The other ordinary employees who do not have anybody to back them up do not enjoy such an opportunity. Many give up further education because of work assignments that do not allow them the time for study. Ideally, an excellent educational qualification should be earned by the time one is in his midthirties.

The future leader may be recommended to get a degree abroad. Providing him with an ABC subvention, the company sent Mr. Maralit in the early 1990s to pursue a graduate degree in engineering in the United States. The ABC gives such subventions only to a candidate who will surely accomplish the study objectives, return to the company on degree completion, and not be pirated. A bata of a strong padrino makes an excellent candidate in this regard. In the case of Mr. Maralit, he would not wish to embarrass his father nor the ABC's top executive; hence, he would study hard and remain loyal to the company. Because a high educational qualification is a prerequisite for promotion, and a degree earned in the U.S. counts highly, Mr. Maralit has a strong edge over others in promotion.

The two other qualifications for promotion are work experience and contribution to the organization. The future leader must prove his leadership capability in a highly visible task, so that no one in the organization will question his experience and contribution. A task of high visibility tends to carry some risks of failure. However, compared with workers without anybody to back them up, someone with a well-placed padrino has protection and can take on the challenges of a task with high risks. These challenges, if met successfully, help the bata's professional career tremendously. The more difficult the job is, the more he learns by going through it and the more he increases his reputation. It would be ideal that he meets a series of challenges when he is in his thirties, when he still has a large reserve of vitality and the capability to learn. He can expand his managerial and technical competencies to qualify as a future leader.

The bata-bata system provides a lot of invisible support so that the candidate for future leadership can overcome the challenges. The case of Mr. Maralit is instructive. He was groomed in another ABC-managed cement plant, and then moved to the PCC in 1996 as a superintendent. He was soon promoted to the position of department manager. In early 1998 Mr. Maralit was again promoted as Line 2 manager, which is classified as an executive position; he supervised several department managers under him. Line 2 is the most modern plant within the ABC group of companies, which was added during a recent expansion. This serves as a final test for him before he assumes the position of plant manager. The current PCC plant manager is over 60 years old and is ready for retirement at any time.

Mr. Maralit can obtain advice from the plant manager, who plays the role of his mentor. The latter may be strict as a padrino, but he extends help to Mr. Maralit when he needs it. The padrino also creates the environment for the future leader candidate by ensuring that he gets favorable assignments. For example, the padrino places veterans under the future leader candidate so that the veterans can cover his lack of experience. The production manager of Line 2 who reports to Mr. Maralit is the former plant manager of another ABC plant, and is considered as a real veteran of cement production. The electric maintenance manager of Line 2 is the former plant manager of another cement plant, and is regarded as another real veteran. The plant manager directs his other bata to support Mr. Maralit. Since the transfer of the padrino's power to the future leader candidate is already in sight, the other bata work hard for Mr. Maralit so that they can also develop

their own bata-bata relationship in the days to come. In this way, instead of building a group of bata by himself from scratch, Mr. Maralit can inherit the support of people already placed in critical positions of the plant.

Another important thing the padrino does to pave the way for the future leader candidate is to eliminate possible competitors by transferring them to other ABC companies. For example, one manager who was eyed as a future leader of PCC was promoted to become the assistant plant manager of another ABC cement plant. Although it was a promotion, the size of the plant was very small. When the top management had to select Line 2 managers from the younger generation of PCC managers, he was not among the candidates.

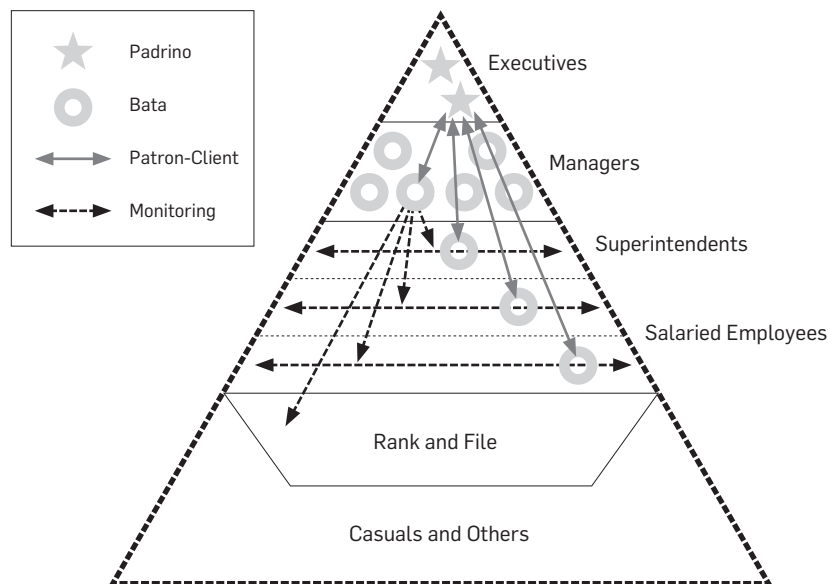
Because of support through the bata-bata relations, the chances that the future leader candidate will succeed become greater in modern business organizations in the Philippines, the human resource management system of which is supposed to be based on meritocracy. With success in highly visible jobs, the future leader candidate can be promoted to become a leader of the organization. By the age of around 40 or 45, he can be eyed as an undisputable successor based on merit, and not based on connections or his strong relation with his padrino. The table on page 270 shows the grooming process of the future leader, as described above.

Parenthetically, it should be noted that, by 2004, Mr. Maralit has become a plant manager of a big cement plant located in Mindanao; the plant is an affiliate of the PCC. He has not become the PCC plant manager as originally planned, but got an almost equivalent position. Due to the Asian currency crisis, the ABC was forced to be allied with one of the largest cement multinationals in the world, which caused some reshuffling of the managers within the ABC group.

### **Disadvantages of *Bata-Bata* Relations and Their Minimization**

Although there are advantages that bata-bata relationships provide to plant operation, there are also disadvantages. The most significant problems are two: (1) difficulties in attracting, motivating, and retaining competent workers who do not have padrinos within the organization; and (2) the perceived bias in the organization's penalty system, which could lead to problems in monitoring employees' work and behavior. The former distorts the motivation system, while the latter distorts the monitoring system. How do such

**Fig 2. Check and Balance of Patron-Client Relationships in the PCC Organization**



distortions affect the PCC? In examining this issue, I refer to workers who do not have any padrino as non-bata.

If a competent worker finds out that the organization does not reward good work and that personal connections are more important than anything else, he will not want to join the organization. If he is already in the organization, he is going to lose his motivation for hard work, and, if an opportunity arises, he will make an exit for another organization. Thus, bata-bata relations give rise to a vicious circle. The good non-bata is easily pirated. The non-bata who are not so good remain in the organization but are not very motivated. Thus, the organization relies more on the bata than on the non-bata. In turn, the bata are likely to be more motivated and are not likely to be pirated.

Because the ABC has established a strong image as a professional organization, attracting competent workers is not a problem. However, bata-bata relationships may function as a hindrance to the organization's hiring of potentially high performers, because as long as the minimum educational requirement is met a bata has a great advantage over a non-bata in the hiring process.

In the PCC plant, some non-bata perceive promotion as a function of bata-bata relationships rather than as a fruit of hard work and good performance.

Many supervisors told me that this is a reality confronted by all salaried employees in the Philippines, such that having an influential and strong person as a padrino is advantageous for promotion. However, they did not complain about what was going on in the PCC. To them, life is unfair. They do their normal routine work in order not to lose their jobs, but they do not do more than that.

A non-bata employee also tries to leave the organization when a better opportunity arises. Two well-trained engineers, one a manager and another a superintendent, resigned from the PCC in late 1998. Both of them moved to the PCC's competitors, which were bought by foreign multinationals and experienced major management changes. Both of them told me about the difficulties faced by non-bata in the competition to go up the corporate ladder within the PCC and ABC.

In order to control workers' behavior, the PCC plant relies formally and heavily on the penalty system, which takes the form of rules and regulations. Usually one who violates the rules receives a warning; subsequent offenses result in suspension from work and, eventually, termination of the employment contract. In such an environment, for many salaried employees being the bata of a powerful padrino is important for job security. The bata has the padrino's protection if he makes a mistake at work. More importantly, if one has a powerful padrino, people around the bata tend to close their eyes on his mistake—unless it is obvious and serious. When the mistake is questioned, the padrino is likely to intervene in his favor.

Naturally workers who do not have a padrino feel strongly that the company's penalty system is unfair. For example, falling asleep during the night shift is a serious matter for an engineer. If he is caught sleeping, by putting his head down on his desk, he usually gets a suspension. However, according to one non-bata engineer, the bata of a powerful executive rarely gets penalized for doing just that. The non-bata engineer says, "If you are the bata of the top, you can get away by saying that you have been contemplating on some work-related problems. But if you are not a bata of anybody, the management will charge you for sleeping while on duty."

Because no other vertical informal network system is available to Philippine business organizations to make up for the deficiencies of the formal structure, bata-bata relations form the only informal network on which business organizations rely (fig. 2). However, there are two conditions for this informal network to work well. These two conditions are measures to minimize the two disadvantages of bata-bata relations discussed above.

The first measure is to emphasize meritocracy. As already mentioned, bata-bata relations have a negative effect in terms of attracting competent workers to the organization, motivating non-bata workers, and retaining competent non-bata workers. Therefore, a modern Philippine corporation needs to emphasize that it operates under meritocracy. In the case of the ABC, being a professionally managed organization has been emphasized repeatedly. It never admits that it has bata-bata informal systems twilled into a meritocratic system. At the same time, as seen in the case of Mr. Maralit, some principles are strictly adhered to so that bata-bata relations do not manifest on the surface and do not compromise meritocratic principles. For example, he had to possess the minimum qualifications at the time of hiring; he had to spend some years outside the (immediate) organization in order to prove his capabilities; and he had to pass some clear performance expectations per position throughout his work life.

The second measure is to make sure that at least two padrino-bata rival groups exist in the same organization. Bata-bata relations may adversely affect the organization if a single padrino monopolizes power. For example, as already mentioned, a padrino even without direct intervention weakens the enforcement of penalties and distorts the monitoring system. Therefore, without a proper check-and-balance mechanism, the system can be abused easily to protect incompetent workers and even those who deserve to be penalized. To prevent such a negative consequence from occurring, a mechanism for proper monitoring should be in place. However, the distorting effect of bata-bata relations on the monitoring mechanism cannot be easily counterbalanced by a formal monitoring mechanism, and no other type of informal group can counter bata-bata relations. Consequently, what the ABC has done is to ensure the existence of multiple competing padrino-bata groups, each of which watches closely the others. This approach makes a lot of sense. Because the padrino-bata groups are competing for limited resources in the organization, such as good positions and budget allocations, they themselves are the best motivated to monitor the moves of other groups and to inform headquarters of any problems.

The ABC head office makes a conscious effort to install competitive padrino-bata groups in order to monitor their subsidiaries. In the PCC's case, a healthy competition exists between the group of the plant manager and the group of the EVP. To make sure that there is a sufficient system of checks and balances, the ABC prevents the monopolization of positions

by certain members of a padrino's group. Therefore, the ABC head office monitors carefully who is occupying which position and who the padrino is of that person. According to personnel officers at the headquarters, whenever there is a personnel opening, the head office always considers how to strike a power balance among the padrinos.

For example, in 1998, a bata of the plant manager, who occupied a marketing-related position, was replaced by a bata of the EVP. Moreover, a new position related to the control of inventory was created and placed over the chief warehouseman's position, which was occupied by a bata of the plant manager. The person who was placed in the new position was a bata of the EVP. The ABC headquarters intentionally made these changes to ensure a healthy competition among the different padrino-bata groups.

Given such competition, which acts as a monitoring device, it becomes important for padrinos to select competent bata with good moral standards. The padrinos must also emphasize, as a group norm, the type of behavior that fits well the goals of the organization. An example is the plant manager's statement at the start of the expansion project, as discussed earlier. Because the informal group tends to have a set of norms that binds its members, once group norms are aligned with the goals of the organization, and for as long as healthy competition exists among the padrino-bata groups, each informal group can actually monitor the behavior of its members, to the benefit of the organization.

### **Factors That Necessitate Merito-Patronage**

In light of my observations concerning the merito-patronage system in the organization of the PCC, which is essentially the bata-bata system well twilled into meritocracy, I now turn to a discussion of five factors in the Philippine business environment that specifically make the bata-bata system a necessity alongside meritocracy.

First is the issue of social capital, that is, trust, which is applicable at two levels: institutional and individual. Filipinos have a low level of trust in institutions, especially in the justice system (World Bank 2000; Social Weather Station 2007), which otherwise should be responsible for punishing the morally hazardous behavior of managers and employees. In the absence of a proper justice system, the property rights of owners are not well secured. The other issue is the low level of trust in individuals. Various studies point out that Filipinos tend to be highly suspicious of others outside of their fami-

lies (Watkins and Andrews 1997; Labonne, Biller, and Chase 2007). Thus, the Philippine portion of the World Values Survey of 2001 (with a national sample size of 1,200 respondents) reveals that only 8.3 percent of the Filipinos surveyed thought that most people could be trusted, while 90.7 percent said they “can’t be too careful.” In contrast, around 30 to 40 percent of respondents in Germany, Japan, and the United States thought that most people can be trusted (European Values Study Group and World Values Survey Association 2006). Like many other studies on Philippine society, Abad’s (2005) detailed study on social capital shows that the kin network provides a strong base for human relations in the Philippines, and that social capital is more developed among the ranks of the privileged than among the lower classes.

Because of the perception that people cannot be trusted, and because a weak justice system does not protect property rights, owners of businesses feel the need to be on top of management, overseeing their business operations in an attempt to protect their own interests. However, because the owners cannot oversee everything by themselves, they rely on people they can trust, that is, family or quasifamily members. The quasifamily members who become the *bata* of the owners may assume the position of executive managers, for example. In a similar fashion, the executive managers need to rely on other quasifamily members or *bata* in order to pursue their role as professional managers and, at the same time, protect their own interest and welfare. Thus, hierarchies of patron-client networks are constituted within a modern corporation. To a certain extent, this pattern is similar to Wurfel’s (1988, 96–97) observation that within Philippine political parties there are “hierarchies of patron-client networks.”

The second factor is determined by conditions that prevail in the labor market, such as the high unemployment rate and the high mobility of professionals. In April 2008 the unemployment rate was 8 per cent, while the underemployment rate was 19.8 percent (National Statistics Office 2008). These figures imply that about one-third of the working population is not properly employed. High unemployment and underemployment rates imply that finding good regular jobs in the Philippines is difficult. Assistance to gain entry to a job is highly appreciated, to the point that the one who gets employed feels *utang na loob*, which in turn becomes the foundation, a very strong one at that, of the patron-client relationship that is formed.

Meanwhile, qualified and experienced professionals enjoy high mobility in the Philippine and global labor markets. For many of them, having

gained enough work experience is tantamount to being pirated by other companies within the country, or even obtaining employment abroad where they receive much higher pay. Work experiences in the Philippines are often considered as stepping-stones to a foreign job (Asian Development Bank 2005; Alburo and Abella 2002). On the part of business operations in the Philippines, having an experienced staff is crucial. This contention explains why the dependence of former employees of Alpha Cement on the plant manager makes a lot of sense. The latter always manages to get people whom he knows to be capable, trustworthy, and loyal, and not easily pirated nor eager to go abroad.

Philippine labor laws constitute the third reason for the heavy protection of regularized workers in general, in terms of both employment and income security. That this is so makes the motivating of workers through formal mechanisms very difficult. For example, the threat of losing a job or receiving lower salaries if performance is not satisfactory has very little force.

The fourth factor is the high power distance culture, which indicates that society “accepts the fact that power in institutions and organizations is distributed unequally” (Hofstede 1980, 45). This leads to the tendency of organizations to be hierarchical. No less than the socioeconomic situation prevailing in the country depicts this tendency. Over the years the extensive income disparities in the Philippines have resulted in the development of a hierarchical social system and status-conscious mindsets (Anderson 1988; Ortigas 1994). It is thus not surprising that the Philippines is the country with the largest power distance among the forty countries studied by Hofstede (1980).

Status-conscious people are prone to create an organization that classifies its members hierarchically based on symbols that distinguish the different statuses in society. For example, at the PCC, status differences are apparent in the personnel’s uniforms, their distinctly different dining rooms and canteens, how people call each other, and so on (Kondo 2002). The more vertically extended are the distances of layers within the organization, the more difficult it is for the plant manager to monitor employees below, thereby making it necessary to ensconce well-placed *bata* at virtually every step of the way.

The fifth and most important factor is probably the Filipinos’ concept of why business exists in society. In the minds of a number of Filipinos,

the ultimate purpose behind the existence of businesses and corporations is to provide for their owners, with owners constituted by “families” (McCoy 1994; Saldana 2001; Krinks 2002). This view differs, for example, from that of the Japanese of whom a large number believe that the ultimate purpose of corporations is to provide jobs and to see to the welfare of their employees (Witt 2006). Considering that Philippine political history shows many behaving as though the ultimate purpose of government positions is not to address public welfare but that of the officials’ families, it is not surprising that Filipinos believe that corporations are exclusively for the welfare of the owner’s families. Employees identify themselves as “nonfamily members” or as “outsiders” who not only do not share the owner’s family interest but also are likely to be exploited by the owner. With that image of the corporation in mind and with the employees’ identity as nonfamily members, motivating them becomes difficult. Employees can easily exhibit “morally hazardous” behaviors, and monitoring such employees alone can be costly to the organization. However, as the word *bata*, or child, implies, the *bata-bata* system gives an employee a different identity, that of a child of the family. The *bata* becomes an imaginary “family member” or “insider” who shares the interests of the owner-families. The *bata* employees work hard as the owners’ good sons or daughters, hence motivation and monitoring are relatively easy and not costly.

In sum, the business environment in which Philippine organizations operate and exist is tough. Under the circumstances, relying on patron-client relations to motivate and monitor employees appears to be a wise and cost-effective decision for Philippine corporations, as long as the patronage system is woven into meritocracy and the *merito-patronage* management system functions well.

## Conclusion

This article revisited the familiar patron-client system in Philippine studies by offering a detailed management analysis. In order to operate effectively in the Philippine context, a corporation twilled patron-client relations into meritocracy, and developed a hybrid type of management system that I call *merito-patronage*. Although there is a general perception that the patron-client system is “bad,” this article argues that its adoption into meritocracy is a rational choice in the specific context of the Philippine business environment. This article has described how a business organization tries to

maximize the benefits of the patron-client system while minimizing its disadvantages. Through *merito-patronage* a Philippine business organization has developed its own way of managing people to make itself competitive in an environment that is not necessarily easy for business and not conducive for the kind of modern corporation idealized in traditional business management studies. Family corporations, especially those that are adaptive and innovative enough to develop the *merito-patronage* systems, are likely to stay at the center of economic activities in the Philippines in the foreseeable future.

This study’s observations on *merito-patronage* have important implications beyond management studies. Faced with globalization, Philippine society has grown more oriented toward meritocracy, however superficial it may be. Analyzed within the context of anthropology and sociology, the *merito-patronage* system can be a model into which traditional patron-client relations may evolve, especially among the urban and educated populations.

In political science, the *merito-patronage* system has great importance as a subject of analysis. Numerous studies point out that elite families control *de facto* the Philippines for their own sake. These elites are also owner-managers of modern corporations. Meanwhile, Philippine public offices are known for their extensive reliance on politically appointed personnel, suggesting that elites install whomever they trust in important state positions, among them the secretaries and undersecretaries of various departments. Under the contested democracy paradigm (Weekley 2001) where elite democracy and democracy from below compete, the obviously poor performance of the politically appointed eventually generates public complaints. Thus, it is likely that elite families try to place competent and trustworthy persons in important state administrative positions. Where do they obtain such talents? Naturally, they draw from modern corporate sectors, including corporate NGOs such as the Philippine Business for Social Progress.

In other words, as we have seen in the selection and nurturance of a future leader in the PCC through *merito-patronage*, the persons who can fit well and move up in such a system do get such positions. The appointing parties know that their individual loyalty to elite families was what brought them the state positions. There they use their competencies to further strengthen the power of the elite families who serve as their patrons. In fact, through *merito-patronage* the power of elites is largely protected, if not further promoted. It appears that, with its *merito-patronage* management system, the

modern corporate sector functions to provide a concept of management as well as a pool of talented human resources who further support the elites' self-interest—not only economically but also politically. Modern corporations serve as the foundation of Philippine capitalism.

The study of modern corporations in the Philippines has been a neglected subject, despite their role as wealth, power, and talent base of the controlling elites. Given that the Philippines is being locked into globalized markets, where powerful global oligarchies are emerging (Gilpin 2001), attention to the management of corporations, including indigenous corporations, multinationals, and their alliances, is certain to provide a deeper understanding of the changes happening in Philippine society.

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**Mari Kondo** is professor at the Ritsumeikan Asia Pacific University, 1–1 Jumonji-baru, Beppu, Oita 874–8577 Japan. She teaches International Business, International Political Economy, and Strategic Management in the Master of Business Administration program; and Asian Human Resource Management, and Business Ethics and Corporate Social Responsibility (CSR) to undergraduates. She obtained her Ph.D. degree from the Center for Southeast Asian Studies, Kyoto University, in 2002. She was a faculty member of the Asian Institute of Management for over twelve years, after a stint at the World Bank in Washington, D.C. Her research interests include comparative capitalism, the political economy of CSR, and CSR for peace and security. <mkondo@apu.ac.jp>