Ayala Corp (Philippines)

Recommitting to a Broad Stakeholder Ecosystem During the Pandemic

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Extraordinary Endeavors in Turbulent Times:
Asian Innovation, Inclusion, and Impact during COVID-19

A Joint Report by the Asia Business Council and the Hong Kong University of Science and Technology

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Dear Reader,

As the directors of this joint project by the Asia Business Council and the Hong Kong University of Science and Technology (HKUST), we are delighted to present the results of our study on the extraordinary endeavors of Asian companies in the turbulent times of COVID-19, as companies embrace innovation, promote inclusion, and drive social and economic impact across the region.

We hope that this series of eight case studies will illustrate the silver linings of the pandemic – in these trying times companies are more than ever realizing the importance of social responsibility, reimagining and reinventing traditional forms of philanthropy, and leveraging technology as a force for good in ways that will likely last well beyond the crisis.

While the articles are written with business leaders and business students in mind, the stories we tell have relevance for a wider audience as they show how Asian corporates took the lead in engaging a broad eco-system, including governments, academic institutions, religious groups, and the public health sector, in addition to start-ups, small and medium enterprises, and even competitor companies within the private sector.

True to the times of COVID-19, the smooth collaboration between our two organizations took place without any face-to-face meetings; all the research and interviews were conducted virtually and across multiple time zones. We are especially grateful to Asia Business Council Chairman Lim Boon Heng and Vice-chairman Daniel Tsai whose companies Temasek and Fubon Group were the first two companies to take part in the study. We would also like to thank the unfailing support of Mark Clifford, Executive Director of the Asia Business Council, and Roger King, Senior Advisor and Founding Director of the Tanoto Center at HKUST, without whom we could not have completed the project.

Amidst the continued risk and uncertainty surrounding the pandemic, we hope that this report will contribute to the ongoing discussions on stakeholder capitalism and the debates on the role of companies in the local and international community, in times of crisis as well as times of relative normalcy. Above all, we hope that you will enjoy reading the articles as much as we enjoyed writing them, and that the report will be a source of positivity and inspiration for audiences around the world.

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Recommittng to a Broad Stakeholder Ecosystem During the Pandemic

By Winnie Peng, Pauline Yeung, and Colleen Howe

The following case study is based on interviews with Ayala Corp. Chairman and CEO Jaime Augusto Zobel de Ayala on July 29, 2020, and with Fred Ayala, CEO of AC Education; Maripi Jalandoni, Strategic Communications Advisor for Ayala Corp.; and Guillermo Luz, Chief Resilience Officer of the Philippine Disaster Resilience Foundation, on August 28, 2020.

“We have always recognized the need to support nation-building, but during an unprecedented crisis like COVID-19, the desire to help becomes even more urgent and compelling,” said Jaime Augusto Zobel de Ayala (JAZA), Chairman and CEO of leading Philippine conglomerate the Ayala Corp., recalling the day in April 2020 when he agreed to join a government-led task force to fight the COVID-19 pandemic. By the end of the year, Ayala’s COVID-19 response would evolve into a ₱12.7 billion ($264 million) aid package to help the wider community even as the company’s own revenues fell.

Philippine society was severely challenged by the public health crisis and the resulting economic downturn. By April, there was already unrest over food shortages in Metro Manila and the pandemic was becoming a social and humanitarian disaster. While major corporations in the Philippines have traditionally supported the government response to crisis situations, the scale and magnitude of the pandemic meant that it was exceptionally challenging to meet the needs of the community with finite resources.

The Ayala group prioritized its response to first ensure that its employees could work safely, through wage continuance, early bonus release, as well as work safety protocols. Work-from-home arrangements helped guarantee business continuity in core functions. The group then assisted its business ecosystem of partners, suppliers, customers, and agencies, many of which were small and medium enterprises. Finally, Ayala mobilized its wider network, not just the private sector but also religious organizations and civil society at large, to channel resources to and support the community.

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The Ayala group’s roots as a family business are said to have influenced the company’s sense of social responsibility. Founded as a trading house by Basque entrepreneurs in the 1830s, the family had an interest in philanthropy from the beginning, with early generations engaged in poverty relief and the establishment of an arts academy in Manila. After World War II, the company supported the reconstruction of Manila through its Hacienda Makati development and ultimately evolved into one of the country’s major real estate firms. When the current generation of leadership took over in the 1990s, it expanded beyond the core businesses of real estate and banking into the public utility business, to provide basic services at a time when access to water and telecommunications infrastructure were lacking. More recently, Ayala has started investing in the healthcare, energy, industrial manufacturing, and education sectors.

"The group’s mission is to help solve large national social problems by developing sustainable solutions that can scale,” said Fred Ayala, who leads the group’s education initiatives and is not related to the Zobel de Ayalas.

The COVID-19 pandemic offers a lens to examine how a publicly listed, family-controlled business with a social mission can mobilize a broad stakeholder ecosystem to address a society-wide crisis.

**Philippine Disaster Resilience Foundation**

Based in a region prone to natural disasters, Ayala Corp. had transferable experience from the past when it had also acted to support the community. In 2009, the group participated in the creation of what is now known as the Philippine Disaster Resilience Foundation (PDRF), a consortium of some of the largest private-sector corporations and NGOs that would, in the words of JAZA, act as a “support mechanism for our partnership with government” in times of crisis.

In 2013, Typhoon Haiyan, or Yolanda as it is known in the Philippines, became one of the worst disasters in Philippine history, leaving over 6,000 dead and nearly 30,000 injured. Ayala supported the recovery through PDRF as well as the group’s aviation unit, which spearheaded an initiative to send telecommunications equipment and relief goods to the affected regions. Ayala was among the first of a group of large companies that committed to assist the recovery in Yolanda-affected areas.

But a passive-reactive response to such tragedies did not appear to be enough. PDRF leadership decided to shift the organization’s focus from disaster response to preparedness and resilience. “We realized we couldn’t keep being reactive. We needed to be more proactive.”
needed to be more proactive,” said Bill Luz, an Ayala executive who became the first Chief Resilience Officer of PDRF.

As part of the strategic shift, JAZA chaired a task force and Luz managed an effort that culminated in PDRF building the world’s first private sector-run national emergency operations center (EOC) in a former U.S. Air Force base in Clark, Pampanga. The EOC coordinates business contributions to disaster management and helps companies reduce their risk and plan resiliency measures.

**Project Ugnayan**

When the coronavirus hit the Philippines in early 2020, PDRF was able to mobilize the business community to mount an impactful food relief initiative, Project Ugnayan, within a short period of time. Through funds raised for Project Ugnayan, PDRF became the single largest source of COVID-19 financial assistance in the Philippines by dollar value, contributing $35.3 million (₱1.7 billion).

The idea for Project Ugnayan was sparked by Metro Manila’s enhanced community quarantine in March 2020, a lockdown measure to slow the spread of the pandemic that also meant a sudden and drastic loss of income for informal workers. “If their issues were not addressed, they would face significant hardship,” said JAZA, who serves as co-chair and trustee of PDRF.

With his brother Fernando Zobel de Ayala, COO and president of Ayala, JAZA reached out to the business community for financial support. A total of 270 companies and individuals signed on to the project, with many of the larger partners joining in the first 24 to 48 hours.

The brothers settled on distributing aid in the form of ₱1,000 vouchers from supermarket chains in low-income areas of Manila. Distributing one voucher per family was more efficient than cash donations because the Philippines has no national identification system that could be used to send bank transfers. Vouchers also eliminated the need for oversight of large in-person cash transfers, while offering recipients more choice than in-kind donations.

Notably, the vouchers were distributed via the parish system of the Catholic Church, a trusted partner with close ties to communities in the majority-Catholic Philippines. PDRF and Caritas Manila, the social services arm of the archdiocese of Manila, together provided over 14 million individuals with food aid. The gift checks were distributed in the Manila metro area and nine other dioceses on the main island of Luzon.

In addition to alleviating hunger, Project Ugnayan lessened the need for working-class families to leave their homes to earn money during the lockdown, contributing to the effectiveness of public health measures.
Task Force T3

Ayala Corp.’s leadership in public–private partnership Task Force T3 is another example of the group’s ability to mobilize a broad stakeholder ecosystem. On April 22, 2020, Philippine Secretary of Finance and the country’s lead economic manager, Secretary Carlos G. Dominguez, asked JAZA if he could help organize more private sector support for the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF) in its battle against COVID-19.

The following day, Fred Ayala, Bill Luz, and Paolo Borromeo, head of Ayala’s healthcare arm Ayala Healthcare Holdings Inc. (AC Health), met with the Department of Health and the Asian Development Bank to explore how the Ayala group and the business community could help.

On April 24, the IATF and the private sector group — which by now included the Metro Pacific Hospitals of the MVP Group, pharmaceutical product producer Unilab, and the Philippine Red Cross — publicly launched Task Force T3. Coined by National Task Force Chief Implementer Secretary Charlie Galvez, the name referred to the government’s three-pronged strategy to combat COVID-19: “Test, Trace, Treat.” Task Force T3 aimed to facilitate collaboration across sectors to improve the Philippines’ capacity in these areas. The task force ultimately included dozens of private sector partners as well as civil society and multilateral organizations.

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promote the greater good: “Out of a negative situation came one where trust and a sense of communal undertaking became priorities.”

At the creation of the task force, the Philippine government faced two major challenges. The first was a lack of testing capacity. The government needed to test 30,000 individuals per day to ensure it had sufficient data to determine when it would be safe to lift the lockdowns imposed in March. But laboratory constraints meant the country could administer only 4,500 tests per day.

The second challenge was to provide sufficient personal protective equipment (PPE) for healthcare workers, who accounted for over 15 percent of confirmed COVID-19 cases at the time.8

The private sector provided financial support, and government and civil society organizations seconded staff. Each work stream had both a public and a private co-chair or champion to ensure representation from all sides. Internally, Ayala Corp. assembled a dedicated team of project managers and project associates to carry out initiatives. Over time, the Ayala group began to shift more responsibilities to the government side, emphasizing that they viewed their role as a supplement to the government response.

Testing
The combined efforts of Task Force T3 increased the number of laboratories able to conduct COVID-19 tests to 198 as of December 21, 2020, up from 17 in April when Task Force T3 was formed. The expanded laboratory capacity subsequently increased national operational testing capacity to over 120,000 tests per day in December, up from just 4,500 tests per day in late April. By July, the Philippines led the ASEAN region in COVID-19 tests conducted per day.9

Ayala Corp. also formed a consortium of seven companies that contributed seven biosafety level 2 laboratories for COVID-19 testing. Together, the companies upgraded three existing laboratories and built four new laboratories. AC Health led the consortium, which included Qualimed Health Network, owner of the hospital where the new laboratories would be located, and Ayala Land’s subsidiary Makati Development Corp., creator of the modular laboratory design.

Upon completion, these laboratories could process 5,500 tests per day, accounting for approximately 10 percent of national daily testing capacity at
the time. Ayala Corp. worked with the Department of Health to pursue timely accreditation of the facility, and AC Health donated machines and equipment to the Tropical Disease Foundation, the owner of an existing laboratory facility specializing in tuberculosis testing, to help equip the facility for COVID-19 testing.

**Tracing**

Ayala Corp. took steps to enhance capacity for contact tracing, which remains hampered by the lack of a national identification system, including refining contact tracing protocols and identifying technology systems to support efficient contact tracing.

**Treatment**

The Philippines’ treatment strategy required dedicated quarantine facilities for less severe cases to reduce pressure on the health system. Ayala companies Ayala Land, Globe, Manila Water, Integrated Micro-Electronics Inc. (IMI), and AC Energy worked to convert Manila’s World Trade Center into a 500-bed quarantine facility with isolation cubicles in April, when hospitals were becoming overwhelmed.

The Ayala companies pooled their resources to complete the project in seven days, with Ayala Land’s Makati Development Corp. leading the planning and construction, Globe Telecom funding the construction cost and providing Wi-fi services, and IMI donating sanitation booths. The facility was then turned over to the Armed Forces of the Philippines to operate. Ayala companies also converted the QualiMed Hospital in Santa Rosa, Laguna, into a COVID-19 referral facility.

Ayala Corp. also stepped up to procure personal protective equipment via a voluntary employee donation program in which workers had the option to contribute part of their bonuses, and Ayala Health handed out 10,000 N95 masks in hospitals.

The Ayala group plans to continue supporting relief efforts through Task Force T3 by creating a training program for new recruits hired by the government. The group is also supporting the Task Force’s “Ingat Angat Tayong Lahat” campaign to restart the economy by encouraging citizens to resume their normal activities, while following safety protocols.

In all these efforts, Ayala was well-prepared to take a leadership role and serve as a resource for other companies because of its vision in identifying the healthcare sector as a key area of disruption over the past four to five years. This had resulted in a well-trained workforce, from the entry level to the C-suite, with expertise in both medicine and business.
Ayala Enterprise Circle

Importantly, Ayala Corp also sought to support its business partners and customers, many of them micro, small, and medium enterprises (MSMEs). “We made it a key priority to provide critical and direct support to the very stakeholder ecosystem that helped us become successful,” said JAZA. In addition to providing ₱6 billion ($125 million) in financial relief for these MSMEs during the crisis, the group began to invest in initiatives to encourage their longer-term development.

One example is the Ayala Enterprise Circle program, launched in May 2020. The initiative offers MSMEs access to mentorship from industry leaders, online classes, and networking opportunities. In a sign of the demand for such services, the first webinar held during the pandemic was attended by over 900 MSME clients, suppliers, and partners.13

Under Ayala Enterprise Circle, many of the Ayala subsidiaries provide services targeted at the MSMEs in their sectors. For example, AC Health offers unlimited consultation healthcare plans for individuals and small businesses that otherwise may not be able to access healthcare. Ayala Land provides digital tools for MSMEs, including home deliveries and online marketing support.

Future Outlook

While the short- and medium-term focus for Ayala is on returning employees to work safely and assessing immediate changes in the consumer landscape, over the longer term the group must evolve to keep pace with permanent changes in the economy.

JAZA notes that three trends are expected to impact all aspects of the business. First, traditional working styles will be permanently disrupted. There may well be a “dual structure" where working from home or centers near home at least part of the time will become the norm. Ayala Corp. enabled working from home in the early stages of the pandemic by providing internet access, where needed, and free online learning tools.

Secondly, Ayala Corp.’s focus on supporting the broader stakeholder community will become increasingly important. The company’s financial results are a sign of the company’s commitment. Net income after tax dropped by 79 percent in the first half of 2020 to ₱7.9 billion ($164 million). By comparison, the company directed a combined ₱9 billion ($187 million) before tax toward the COVID-19 response during that time.

Thirdly, there will likely be a fundamental shift in consumer behavior, with COVID-19 accelerating financial inclusion and boosting digital businesses. Ayala Corp. has benefitted from investments it previously made in digitalization, including investments in telecommunications; a partnership between its GCash app and Alibaba Group’s financial services provider Ant Financial for mobile
payments; and investments to digitize the infrastructure of its bank. JAZA emphasized the importance of analyzing business metrics to predict future trends. The success of this strategy will likely be key to Ayala Corp.’s future growth in the digital economy.

Conclusion

While the initial shock from the novel coronavirus has subsided, the economic and health impacts of the pandemic remain. Ayala, which saw its net income fall significantly during the first half of 2020, as did most private sector firms in the country, will have challenging times ahead. Moving forward, the Ayala businesses will need to simultaneously revive profits and address the continuing needs of the community, all while reinventing the centuries-old conglomerate’s business model for a new, digitized economy.

To address this challenge, JAZA has crystallized the lessons of the pandemic into a strategy that he describes as “shared prosperity, collaboration, and sustainability.” He is steering a course that will see the company adapt its business model to changing consumer needs while ensuring a fair return on capital, making a positive impact on communities, and protecting the environment for future generations. He believes aligning the institution’s goals to the broader development goals of the country allows a company to create sustainable value.

The coming years will show whether the support Ayala has extended to the community during the pandemic, for MSMEs as well as the poor and vulnerable, have helped put the company on track to achieve this vision.
Endnotes

1 Jaime Augusto Zobel de Ayala is often referred to colloquially by his initials, JAZA, which are perhaps even more familiar to Filipinos than his formal name.


3 This was the size of the Ayala Corp.’s contributions to the COVID-19 response as of Dec. 15, 2020.


