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Ayala's property empire after the split

Zobel house divided

By Jose Galang in Manila

In its 150-year history, Philippine property giant Ayala Corp. has survived two world wars, one revolution, two colonial regimes and almost nine years of martial law. Yet its worst crisis was probably the rift, in 1983, of the family which spawned, nurtured and still controls the corporation. The squabble, caused by fundamental differences in management ideas, led to a split which reached as high as the corporation's two most senior officers.

To many the conflict only highlighted Ayala's ability to weather a storm while keeping a firm footing in Philippine business, despite the nation's economic and political crisis. Beyond its substantial land and other property holdings, Ayala's recent shift from the previous "dictatorial" to a more "democratic" form of management is enhancing confidence within the organisation — an important ingredient for growth.

Growth seems to come as a matter of course at Ayala. From a partnership between Spanish landowner and entrepreneur Domingo Roxas and his employee Antonio de Ayala who together in 1834 set up a crude distillery (Destileria y Licoreria de Ayala y Compania), the Ayala empire has grown to include financial institutions, food-processing plants, electronics manufacturers, entertainment houses and trading operations. Its primary assets are still in property — mainly in Manila's financial district of Makati — which evoke an image of stability. This has been an important strength, particularly during the harsh domestic economic conditions which have resulted in a slew of major corporate failures over the past two years.

Ayala's image has become a major factor in the post-split decisions of both camps in the family feud. Enrique Zobel, who was chairman and president of Ayala from 1968 (when the original partnership structure was reorganised into a corporation) until his retirement in October 1983 (some say it was an ouster because it came two years earlier than scheduled), has labelled the flagship of his new operations with the "Ayala" name — the Liberian-registered Ayala International Holdings (AIH), through which Zobel now operates overseas.

The current Ayala management, led by Zobel's younger cousin Jaime Zobel de Ayala, persistently declares that the group has nothing to do with Zobel's operations. Sources say these "clarifications" are intended to isolate the Ayala image from Zobel's continuing harangue at economic and political institutions in Manila. (Even before he left Ayala, Zobel was publicly critical of policies of Marcos and government technocrats, and was at one time suggested as a possible presidential candidate.)

Zobel de Ayala: 'democratic.'

GROWTH OF AN EMPIRE

(₱ million)	Revenue	Net profit	Total assets	Stockholders' equity
[illegible]	13.35	[illegible]	131.48	93.18
1970	61.36	[illegible]	235.15	206.29
197[illegible]	223.22	[illegible]	1,008.57	697.26
197[illegible]	259.47	151.84	1,238.55	797.94
1[illegible]	337.38	[illegible]	1,402.81	908.46
1[illegible]	389.36	[illegible]	1,497.75	1,062.58
19[illegible]	399.64	164.76	1,783.78	1,043.36
19[illegible]	657.91	116.37	1,632.48	1,025.21
19[illegible]	635.93	142.27	1,791.22	1,136.39

Zobel: family rift.

There is bitterness, despite the polite farewells and generous outpourings of gratitude during formal ceremonies which marked Zobel's departure. The split-up and the bickering detract from the impressive growth achieved by the group under six generations of Ayalas (which evolved from three ancestral families, the Ayalas, the Zobels and landowner Roxas).

Ayala Corp. now counts nearly 60 entities among its investments. At end-1984, Ayala itself had total assets of ₱1.79 billion (US$96.2 million), including ₱448 million of land and ₱17.3 million of property and equipment.

Ayala's thrust into real-estate development in the late 1940s — the original partnership founded by Roxas and de Ayala had ventured by then into sugar and cotton farming, alcohol distilleries, coal mining, manufacture of dyes and rope and operation of street cars — exemplified the bold moves which characterised the family's business. By developing tracts of its Makati property south of Manila (against the trend of the time, which was towards development north and east of the city), the Ayala enterprise firmed up its entrepreneurial image.

The group also emphasised quality in its developments, unusual for that time. Today, Ayala-developed residential areas such as Forbes Park, Dasmarinas Village, Magallanes Village and New Alabang Village are home to many middle- and upper-class families and most expatriates in Metro-Manila. Development concepts introduced at the pioneering Forbes Park have been copied in other projects in the Philippines and Southeast Asia. Ayala-designed commercial centres are also among the most progressive in Metro-Manila.

The physical improvements which appeared in Ayala's Makati soon attracted both the country's big and small businesses. The suffocating congestion in inner Manila also contributed to the trek towards Makati. A recent count put the number of offices in the new financial district at around 30,000.

That successful thrust into property development, which accounted for the bulk of Ayala's revenues until recently, was credited mainly to Joseph McMicking, an American who married into the family and became involved in the group's affairs in 1931. The feat was made more significant by the fact that, according to McMicking, the company "was as short of cash as the next fellow" while it was developing its first residential project, forcing the firm to sell off some holdings to remain liquid.

Another high point in Ayala's history was the decision in 1968 to reorganise the then 134-year-old Ayala general partnership into a corporation. Other old business houses, such as another major property developer Ortigas and Co., lingered too long as partnerships, finding it extremely difficult — because of widely differing ownership personalities and complex government rules — to adapt quickly to changing times. In the case of Ayala, the incorporation was accompanied by a turnover in top-level management. The old guard, led by McMicking, passed on management of the business to the new generation led by Zobel, who was elected chairman and president, and Zobel de Ayala, senior vice-president.

Most other members of the three families maintained their presence through Mermac Inc., which has owned about 45% of Ayala Corp. since its establishment. Four major units affiliated with the dissolved partnership — Ayala Securities Corp., Makati Development Corp., Rizal Realty Co. Inc., and Delta Development Corp. — were merged into Ayala in May 1968. That propped up the status of the new corporation as one of the largest Filipino enterprises.

With land sales and rental income steady, the corporation was able to maintain its growth year after year. Revenues rose from ₱13.35 million in 1968 to ₱635.93 million by 1984. The corporation had accumulated assets of ₱1.79 billion by 1984, from ₱131.5 million in 1968. In 1968, the company had investments in three wholly owned subsidiaries and six affiliates. By 1983, investments in about 60 affiliates and other companies were valued at ₱451 million.

The entry of Japanese equity into the corporation in 1973, when the Mitsubishi group bought 20% of the stock, further enhanced the Ayala image. That was to be the start of a string of joint ventures between Ayala and other Japanese groups in different industries. And Mitsubishi's experience in trading operations gave Ayala a channel to world markets.

The turmoil of 1983-84, arising from the murder of opposition leader Benigno Aquino and the subsequent upheaval that led to a severe financial crisis in the Philippines, did not stop Ayala's revenues and profits from rising. Land was still widely considered a hedge against uncertainty. But at the same time, a different kind of upheaval was simmering at the House of

PLANNED SUCCESS

Ayala Corp.'s ventures into real-estate development thrived on the "snob appeal" of the projects. The plush Forbes Park residential subdivision, which launched the conglomerate into the property business in the late 1940s, was a natural attraction for the well-to-do trying to recover from the ravages of World War II.

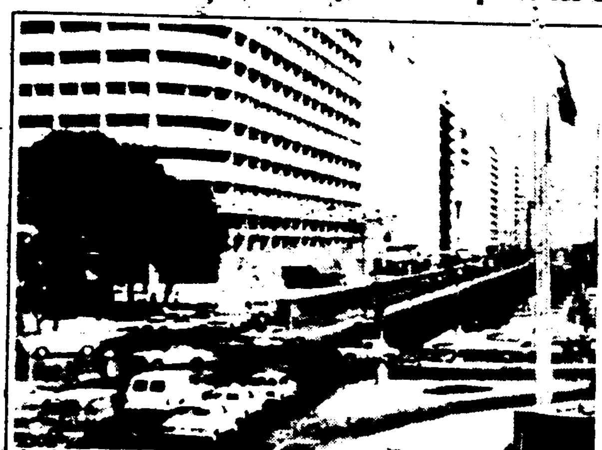
The commercial centre initiated in the early 1960s in Makati, a former grassland far from the congested city core, on the other hand, jibed with the increased demand for office and commercial space precipitated by the country's eagerness to jump into industrialisation.

A sister project to Forbes Park, the Alabang Village, developed south of Makati in the late 1970s came just in time to satisfy the needs of an expanding middle class. Whether a planned similar residential undertaking in Quezon City, north of Manila, will gain the same response from a middle class that is currently taking a beating from adverse economic conditions remains to be seen.

Ayala retained firm control over the areas of these projects to ensure itself against deviations from the planned up-market image. In exchange for this control, Ayala pegged selling prices and rental rates that were lower than those prevailing in other developments.

Forbes Park, still the most prominent feather in Ayala's property development cap, was undertaken at great risk. When ground was broken for the project in 1948, most development was taking place in the northern and eastern fringes of Manila, the only areas to put up a business according to the conventional wisdom at that time.

The project's proponent, Joseph McMicking, who teamed up with Enrique Zobel de Ayala's second son, Alfredo, in overseeing the Ayala clan's business interests — the eldest son Jacobo (the father of Enrique Zobel, Ayala chairman and president from 1968 to 1983) was pursuing a military career at the time — envisioned a country-club atmosphere for Forbes Park. He even negotiated the transfer of the Manila Polo Club to the subdivision for it to acquire the desired image.



Ayala Avenue: home to large corporations. LOREN FESSLER

Initially family members had to live in the subdivision themselves to convince the market that it was worth moving there. Subsequently, security in the area had to be tightened because a rebellion was brewing at the time. But most importantly, lots in the subdivision began selling at ₱6 (32 US cents) a m², a bargain when compared to going rates six times higher for lots along Manila Bay.

The up-market concept became so successful that Ayala was soon duplicating it in other projects: San Lorenzo Village in 1952, Bel-Air in 1954, Urdaneta in 1957 and Magallanes and Dasmarinas in 1962. Another Ayala project, San Miguel, which was opened in 1960, did not develop quite like the others.

At the Makati commercial centre, land is not for sale. Rather, property developers wishing to erect buildings can only get 25-year leases. That, according to Ayala, is intended to retain control over how the land is being used. In previous commercial projects, the areas became blighted as property owners implemented diverse developments according to their own ideas.

The commercial centre's main thoroughfare, Ayala Avenue, is currently home to most of the country's largest corporations and banks. Development has spilled over to surrounding areas, where rents are currently lower.

Blueprints for the commercial centre have been prepared beyond current requirements. By 1990, for instance, the main structures will be replaced with higher buildings to accommodate a projected much bigger population.

— Jose Galang

Ayala. The family was locked in a bitter dispute over Zobel's earlier withdrawal of Ayala investment from San Miguel Corp., a diversified beer-and-food conglomerate.

San Miguel was then run by a Zobel cousin, Andres Soriano Jr, who had been receiving treatment overseas for brain cancer. Zobel, according to sources, had noted that Soriano appeared to be leaning politically towards the government of President Ferdinand Marcos. Zobel, at the time, was actively involved in the affairs of the newly organised Makati Business Club, a forum of business groups formed to evaluate economic trends and suggest possible solutions. The club took mainly critical views of government economic policies.

But the most widely known reason for Zobel's direct challenge to the San Miguel leadership was the power vested in Soriano by the board of directors in 1982 to assign these broad powers to other San Miguel executives. Feeling bypassed (given that Ayala then owned the biggest block of shares in San Miguel), Zobel contested the action before the Securities and Exchange Commission. Losing that, Zobel in January 1983 started buying San Miguel shares, ostensibly in preparation for the May stockholders' meeting. Soriano retaliated by rounding up shares at a higher price. Zobel ended up selling his holdings, at a profit, to the group of coconut industry magnate and Marcos crony Eduardo Cojuangco (who had no previous direct ties to Ayala, though his United Coconut Mills had in 1979 bought some coconut-oil mill facilities from Ayala Corp.), who eventually gained control of San Miguel after Soriano's death in 1984.

Losing the battle with Soriano, Zobel withdrew investments of the Ayala group from San Miguel. Although the move initially had the approval of other family members, after Zobel convinced them that keeping the company out of politics would be in its best financial interest, the disappointment at losing that placement in a proven profitable venture became an irritant in family relationships. Insiders said that McMicking, the family patriarch, was most critical of Zobel's decision.

It has never been acknowledged publicly, but the strained relationship led to Zobel's early retirement from Ayala Corp. He stayed longer at the Ayalas' financial flagship, the Bank of the Philippine Islands (the second-largest private domestic commercial .nk in terms of assets), but also retired from that post two years earlier than due in March 1985. Mermac has the biggest single block in Ayala and the McMickings are widely known to exercise their power at times. Mitsubishi has remained on the sidelines.

Many Ayala employees say their morale now is higher, especially after seeing Zobel de Ayala's "fresh management approach" over the past year — despite his 25 years as vice-chairman and senior vice-president under Zobel. While Zobel was known for his "dictatorial" and "paternalistic" style, most Ayala executives welcome Zobel de Ayala's "democratic" form of management. They say that Zobel de Ayala has made the company's management committee a true venue for decision-making. Under Zobel, that committee was merely a ceremonial forum which convened with an agenda already finalised by top management, according to some.

The two personalities differed in other ways. Zobel was more outgoing, while Zobel de Ayala is quiet and reserved. In fact, some say Zobel de Ayala is difficult to approach. Zobel has basic training in agriculture, having studied animal husbandry in California. Zobel de Ayala, who insists he is "people-oriented," took the Advanced Management Programme at Harvard University Graduate School of Business. He was the Philippine ambassador to the Court of St James for four years from 1970.

San Mig: straining the relationship. JOE MANGUNO

One of the first things Zobel de Ayala ordered when he took over at Ayala was a hiring freeze — but no retrenchment. He also trimmed what he saw as excess fat in the corporation. In the first year of Zobel de Ayala at the helm, Ayala increased its 1984 net profit by 22% to ₱142 million. Revenues, however, declined from ₱658 million to ₱636 million "mainly on account of the absence of major asset and investment disposals in 1984." Total assets expanded 10% to ₱1.79 billion at the end of 1984. He has mentioned plans to in-crea nvestment in a semiconductor firm.

Zobel's reported strong-arm style of management is not to be faulted, however. In many Philippine companies, such a style has proved effective in extracting both loyalty and results from workers, according to experts. However, there has been an apparent shift towards other, more scientific methods in recent years.

Some businessmen who follow Zobel's operations say that in his later years with Ayala he had become "more involved in [the] high-finance type of operations." For instance, the Liberia-registered AIH, which he bought from Ayala upon his retirement for nearly ₱200 million, has been identified with little-known projects which are not viewed as being as successful as those undertaken by the conglomerate at home.

Zobel also had some deals which have turned out to be far from initial expectations. One was the sale of the Ayala share in the Hongkong-based China Underwriters Life and General Insurance Co. to the Carrian Group. Ayala encountered difficulty in collecting payments for that sale. In 1982, Zobel also established ties with Bishop, Baldwin, Rewald, Dillingham and Wong, a Hawaii-based investment firm which later was alleged, in US media reports, to be a CIA operation aimed at launching destabilisation campaigns in Hongkong and Manila (REVIEW, 20 Oct. '83). (The CIA has denied this.) The company went bankrupt in 1983, but Ayala's Honolulu office then said its investments had been pulled out in time.

Zobel is currently bullish about prospects for the Brunei-based Island Development Bank (IDB) of which he was recently named chairman. Zobel's outfit owns 20% of IDB. Another 20% is owned by Japan's largest bank, Dai-Ichi Kangyo, while the majority interest is owned by the sister of the Sultan of Brunei, Princess Rashidah, along with the royal family's QAF Investments. Also, a 50-50 joint venture between Zobel's AIH and Merrill Lynch and Co. of the US, called Merril Lynch Ayala International, operates from Singapore.

In Manila, Zobel has E. Zobel Holdings Inc., Enzo (Philippines) Management Inc. and Ayala International (Philippines) Inc. No other member of the Ayala family is known to be an investor in Zobel's businesses. During ceremonies marking Zobel's retirement from Ayala, some executives recall him saying that "the tide may reverse in the future." This was interpreted as a desire to return to the conglomerate at some later time. However, that possibility may have been pre-empted by a recent amendment in the Ayala by-laws banning a competitor from seeking a board seat. ■