

***Zaibatsu* Development in the Philippines: The Ayala Model**

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Abstract

This article discusses the ability of the family firm to grow for several generations by examining the case of the Ayala group in the Philippines. Such an ability, called here as generational growth, has been the subject of debate regarding the future of the family firm and the *zaibatsu*, which is a special type of family firm. Two features that distinguish Ayala as a model are 1) the ability of the family to maintain ownership and management control for generations and 2) the rejection of the use of political influence for rent seeking.

An examination of Ayala's ownership-management system points to strategies employed for the preservation of the family's position within the firm. The quality and process of such preservation, which family members called stewardship, is also consistent in family and firm's political behavior. The paper proposes that the adoption of superior stewardship strategies accompanied by skillful entrepreneurship would ensure the family's continued ownership-management of the *zaibatsu*.

I Introduction

Following their predominance in prewar Japan, *zaibatsu* have sprouted in various parts of Asia. The term *zaibatsu* is used here to refer to large conglomerates owned or controlled by a particular family (or clan).¹⁾ Because of its ability to grow to such proportion, a *zaibatsu* could be treated as a special type of family firm. However, there is a prevailing view in economics as well as in business history that expansion and growth exert serious pressures for the transformation of family firms to other forms of modern enterprise, especially the managerial enterprise [Chandler 1980: 13-14]. It is widely believed that such transformation is inevitable in the long run, implying the family's loss of control over the firm's ownership and management. Though this might be the general rule, there are exceptions especially in Asian developing economies. A case study is essential to show the conditions that make this exception. This paper shall focus on the

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1) Family ownership is a basic defining element of the *zaibatsu*. See Morikawa [1992], Fruin [1983] and Kang [1996]. Kang provides an update and an elaborate discussion of the definitions of *zaibatsu* and its Korean equivalent, the *chaebol*.

case of the Ayala group of the Philippines.

The choice of Ayala is based on two unique features, which makes the model suitable for a case study. These are, namely: 1) rejection of political favors from government and 2) generations of continued family ownership and management control. Particular focus shall be made on the role of *zaibatsu* ownership-management structure in successful diversification and continuity. Ayala also fits well since it is the oldest and one of largest of the Philippine conglomerates.

Ayala's business history was reconstructed for the period 1834 to 1996, focusing on patterns of firm growth and continuity. The period in study represented seven generations of family management. Problems of access to internal data demanded that reconstruction of Ayala's business history be based mainly on printed sources, which fortunately was sufficient for the purpose of interpreting patterns of development. While internal data would indeed be very useful, the lack of access should not prevent the researcher from studying and observing business group behavior. An autistic child may not tell us what is happening in his or her world but that should not discourage the parent, the therapist or the doctor from observing, recording, understanding, and even experimenting to derive the desired behavior.

I combined a modified Mintzberg descriptive method [Mintzberg and Waters 1982; Mintzberg and McHugh 1985] for inferring strategy patterns with a negative case analytic procedure to determine the causes of Ayala's survival and growth for generations. The steps in the procedure were as follows: 1) Gather all possible data about the company, the profiles and activities of owners and top management, and other relevant information; 2) Establish chronological periods and infer patterns from the periods; 3) Check the consistency of preliminary proposition with the data; 4) Formulate or modify the existing proposition; 5) Examine details of data in the light of new perspective; and 6) Repeat steps 3 to 5 until consistency with data has been achieved.

Interpretation of Ayala's business history was first based on the working proposition that entrepreneurship, a stable family and a low degree of political involvement led to the *zaibatsu's* growth for successive generations. This proposition was generally observed for the period 1834 to 1980 but was overturned when certain episodes immediately thereafter questioned the strength of both entrepreneurship and family stability. These episodes involved the last years of management by Enrique Zobel (or Enzo), first president, CEO and chairman of Ayala Corporation (AC).²⁾ Though Enzo was responsible for AC's formation as a large conglomerate, his replacement and disengagement from majority owners within the family as well as AC's remarkable development afterwards led to a modification of the original proposition regarding generational growth.

This article presents the results of the above-mentioned study. I shall first briefly introduce Ayala's present status followed by its business history focusing on the period

2) A List of Abbreviations could be found after the main text.

1914 to 1996. The historical overview serves as a base for analyzing patterns in the management of growth and diversification. I conclude by suggesting key elements for the *zaibatsu*'s continued growth based on the model.

II Ayala's Present Status

From a minor *zaibatsu* during the first half of the century, Ayala has become the largest Philippine *zaibatsu* in the post-Marcos period. The Zobel de Ayala family through Mermac, Inc., currently controls AC, a holding company for a diversified group of companies. Based on 1995 data, it headed the list of the top Filipino family holding companies (Table 1).

Mermac itself was ranked no. 92 with 3.1 billion pesos in sales and 3.08 billion pesos

Table 1 Top Five *Zaibatsu* of the Philippines, 1995

Sales Rank	Name of Holding Co.	Controlling Family	Sales	Profits (In Million Pesos)	Assets	Equity
41	Ayala Corporation	Zobel de Ayala	6,016	5,483	35,894	26,395
105	JG Summit Holdings	Gokongwei	2,914	2,882	37,185	21,316
101	SM Prime Holdings	Sy	2,973	1,510	16,651	15,539
288	Aboitiz Equity Ventures	Aboitiz	1,205	1,077	8,873	8,548
187	Benpres Holdings, Inc.	Lopez	1,744	1,616	11,218	6,453

Source: *Philippines Top 5000*, Securities and Exchange Commission

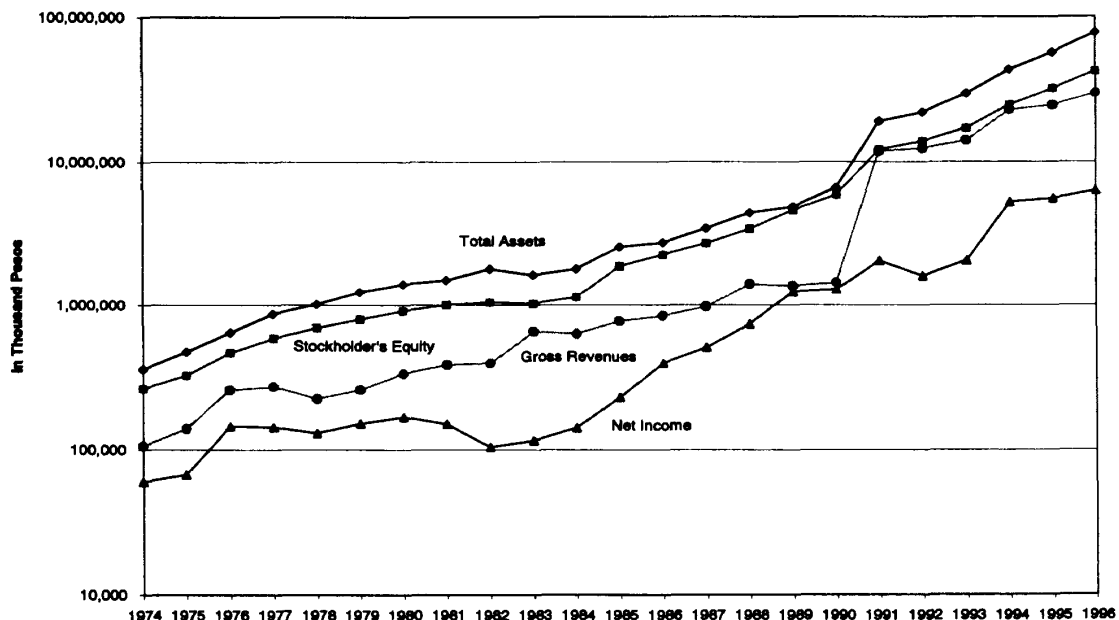


Fig. 1 Growth in Assets, Revenues, Equity and Net Income, Ayala Corp. 1974–96

Source: [Ayala Corporation 1975–1996]

in profits. AC performance from 1974 to 1996 showed a steady upward trend (Fig. 1). More famous as a real estate conglomerate, AC has diversified into several business and social concerns as shown in Appendix 1. Thirty of these member companies have been also listed among the SEC's top 5,000 corporations for 1994.

III Historical Overview³⁾

1. *Origins and Diversification to Insurance and Real Estate, 1914–45*

Ayala Corporation (or AC) traced its history to the 1834 partnership of Domingo Roxas and Antonio de Ayala (Table 2), who later married the former's daughter. The partnership was engaged in the production of liquor. In 1914, the Ayala clan consisting of the Zobel, Roxas and Soriano branches divided their properties, which led to the Zobel de Ayala family's ownership of AC, then a partnership known as Ayala y Compania. Enrique and Consuelo Zobel's children—Alfonso, Jacobo and Mercedes—inherited a 1,616-hectare hacienda known as Hacienda de Makati.

The erstwhile Zobel matriarch, Trinidad, passed away in 1918 leaving her children, Fernando, Enrique and Margarita (see Appendix 2 for genealogy), to run AC. A decade earlier, the family decided to go into insurance facilitated by a particular resource, Antonio Melian, Margarita's husband. Melian was involved in insurance and trading in

Table 2 Ayala Business Family Managers, 1834 to Present

I. Founding Partners, 1834	
Domingo Roxas (1834–1843)	Antonio de Ayala (1834–1876)
II. Succeeding Managing Partners	
Jose Bonifacio Roxas (1843–1863)	Mariano Roxas (1843–1864)
Margarita Roxas de Ayala (1843–1869)	
Pedro Roxas (1876–1891)	Jacobo Zobel Zangroniz (1876–1895)
Carmen de Ayala de Roxas (1891–1913)	Trinidad de Ayala de Zobel (1891–1918)
Enrique Zobel de Ayala (1901–1943)	Fernando Zobel de Ayala (1910–1927)
Antonio Melian (1918–1926)	
Jacobo Zobel y Roxas (1929–1941)	Fernando Zobel de Ayala y Montojo (1955–1961)
Alfonso Zobel de Ayala (1929–1965)	Joseph R. McMicking (1931–1967)
III. Ayala Corporation Presidents	
Enrique Zobel (1967–1983)	Jaime Zobel de Ayala (1983–1994); (Board Chairman, 1983–present)
Jaime Augusto Zobel de Ayala (1994–present)	

Source: [Ayala Corporation 1984]

Note: Bold lines indicate family management generations. The present president represents the seventh generation.

3) A more comprehensive business history has been prepared as part of the author's doctoral dissertation.

Peru but after travelling to the Philippines, decided to stay in the country. Together, the Zobel organized a number of Filipino-owned insurance companies including El Hogar (1910), Filipinas Compania de Seguros (1917) and Philippine Guaranty Company (1917). They also invested in Insular Life Assurance Co., established in November 1910 as the first Filipino-owned life insurance company.

The insurance industry at that time was one dominated by foreign players. Successful entry into the industry by Filipinos hinged on two prevailing practices among foreign firms. First, there were racial or national prejudices toward different types of policyholders. These prejudices were shown in the differences in the amounts of premiums sold to Filipino and foreign nationals. Second, the time spent to settle insurance claims was too long. Among the foreign firms, the decision had to come from the head offices in London or the United States. By correcting these practices, Filipino insurance companies were able to successfully penetrate the industry.

In the 1920s, the Ayala partners set up the China Underwriters Life in Hong Kong (1924) and also opened Filipinas Life Assurance Company (1927) in the Philippines. Times seemed tough from the mid-1920s to the 1930s. According to Lachica [1984: 142], the family experienced serious liquidity problems. In 1924, AC sold its distillery business to Carlos Palanca, a Filipino-Chinese businessman who later became known as the “alcohol king.” Then in 1929, Enrique’s three children entered Hacienda Makati as assets into the partnership. Of the original 1,616 hectares, 700 hectares were subdivided and sold in the following decade. This represented AC’s initial diversification to real estate development.

2. *The Zobel-McMicking Team, 1945–68*

After the Second World War, ownership and management passed on to Enrique and Consuelo’s children. The managing team was basically composed of Alfonso Zobel and Joseph R. McMicking (JRM), husband of Mercedes (sister of Alfonso). The other brother, Jacobo, sold his shares to the other partners because he preferred military service to a business career. JRM was considered as the one responsible for converting the family firm to a professional organization.

During the war, he was a colonel working for General MacArthur’s intelligence department. Alfonso Zobel stayed on in the Philippines, looking over the family properties and businesses. In 1948, under these two people’s management, AC embarked on a 25-year project for the development of Makati. This started with the successful launching of Forbes Park, a community targeted for the rich. Makati was offered as an alternative to war-torn Manila as a residential, business and commercial district.

To this end, AC adopted a strategy of getting the rich first and by creating an image of opulence, everybody would follow. Several details were required for realizing this strategy but it worked anyway. The success of Forbes Park was followed by the development of other subdivisions in Makati for upper- and middle-class groups. Hotels, office buildings, commercial centers and parking facilities followed.

By the 1960s, AC established itself as the country's most successful real estate developer. It was also becoming clear that the company's Makati land inventory was becoming exhausted and that future sources of income had to be tapped. With huge reserves earned from its profitable real estate ventures, the company decided to take two main courses of action.

The first course of action involved creating more value for its existing Makati properties (such as expanding and upgrading the Makati Commercial Center) as well as expanding the real estate business's geographical reach. The company also contemplated on the export of its expertise. Up to the late 1960s, these were yet plans in the design stage.

The second course of action was diversification. This was effectively carried out in the 1960s. In view of the 1974 expiration of the Laurel-Langley agreement, which granted American nationals special economic privileges, many American big businessmen were withdrawing from the country. As such, tremendous opportunities existed for takeover by Filipino firms.

The Ayala partners chose banking and finance rather than large utilities companies such as the Manila Electric Company (MERALCO) and Philippine Long Distance Company (PLDT). According to Alfonso's grandson, Jaime Augusto, his grandfather was "always nervous about those businesses" [Marasigan 1994: 27]. Instead, from 1962 to 1965, the company gradually acquired from American stockholders the controlling interest of the People's Bank and Trust Company (PBTC). Also, in 1965 the company bought substantial shares of Pure Foods Corporation, a processed meat producer and food distributor. However, it was not until 1981 when a clear majority stake was acquired that the Pure Foods Corp. was designated as an AC subsidiary.

3. *From Partnership to Corporation: The Enzo Administration, 1968–83*

Alfonso Zobel died in 1967 and JRM retired in the following year based on a policy that he set that everybody at AC should retire at the age of 60. On February 2, 1968, a new team of family members was appointed to manage the company. The team was composed of Enrique Zobel y Olgado (otherwise known as Enzo) and Jaime Zobel de Ayala (JZA). The formal appointments coincided with the conversion of Ayala from a partnership to a corporation.

Enzo, elected as chairman, president and chief executive officer (CEO), was the son of Jacobo Zobel, brother of Alfonso. His participation in Ayala was based on initial loans provided by the McMickings. JZA was elected vice-chairman and handled administration, insurance and personnel.

AC's parent company was Mermac, Inc., which stood for Mercedes McMicking, the wife of Joseph McMicking. As Lachica [1984: 160] noted, "In her quiet way, most major decisions and appointments were hers. She exercised it with advice and the power to deny. It is therefore to her that a major credit of what Ayala is today belongs." Thus,

based on this setup, the true controlling interests of AC were the McMickings, acting primarily as capitalists while the two younger family members, Enzo and JZA acted essentially as managers (though they had some shares in the company). This mirrored the 19th century setup when Ayala y Cia was basically owned by the sisters, Trinidad and Carmen de Ayala, and managed by their spouses.

Under Enzo's administration, the company resumed its expansion and diversification activities but with a faster pace. By 1976, AC (excluding those owned or controlled by Zobel family members) had about 40 subsidiaries and affiliates (Table 3).

Corporate expansion and diversification activities were therefore not seriously affected by the martial law administration, which witnessed the government takeover of companies owned by other traditional business families such as the Lopezes. One reason in part was that the Zobel family did not engage in partisan politics though they voiced out opinions on behalf of the business community. Another reason was that the company adopted protective measures anchored on alliances with foreign and local business groups. Tie-ups with foreign business groups were effective since the government worked to attract foreign investments and relied on foreign loans for development administration. In 1973, AC invited four Mitsubishi companies to buy in 20 percent of the company's stock.

The same strategy applied for AC's banking arm. In 1969, AC became the Bank of Philippine Islands' (BPI) single largest shareholder by acquiring the controlling shares from the Manila (Roman Catholic) Archdiocese. Thus, two banking institutions came under AC control (BPI and PBTC). In 1972, following the declaration of martial law, the Central Bank required that all commercial banks have a minimum capitalization of 100 million pesos.

Two measures were undertaken. First AC invited Morgan Guaranty Trust of New York to acquire 30 percent equity in PBTC. Then it worked for a merger between PBTC and BPI. In January 1994, the merger between the two banks was completed, retaining BPI's name as the surviving bank. Enzo was elected chairman of the board of directors. He became president and CEO in March 1979.

Another defensive strategy was the formal expression of support to government programs. During the early martial law years, AC announced that it would expand to promising commercial and industrial ventures that were export-oriented in line with the government's investment priorities. Further, AC intensified involvement in hotels which dovetailed with government's priorities on tourism.

With these political defensive strategies in force, diversification and expansion proceeded during the Marcos regime. Real estate development activities continued to reap success with 1) the rapid transformation of Makati as a commercial and business center, and 2) the replication of Makati's development in other areas such as Davao and Alabang. In food and agribusiness, AC took over and improved the management of Pure Foods in 1981.

Table 3 Ayala Subsidiaries and Affiliates in 1976

Industry/Business Activity	Name of Subsidiary/Affiliate	Foreign Partner (s)
Banking and Finance	Bank of the Philippine Islands	J. P. Morgan Overseas Capital
	Ayala Investment & Development Corp.	Wells Fargo Bank International
	Ayala Investment Management, Inc.	
	Makati Leasing & Finance Corp.	U. S. Leasing International Inc.;
		Orient Leasing Co., Ltd.
	Philsec Investment Corp.	
	Ayala Finance (Hong Kong), Ltd.	
	AF Money Brokers, Inc.	
	The Insular Life Assurance Co., Ltd.	
	Filipinas Life Assurance Co.	
	FGU Insurance Corp.	
	The Philippine Guaranty Co., Inc.	
	Universal Reinsurance Corp. (Phils.)	
	China Underwriters Life & General Insurance Co., Ltd. (Hong Kong)	
	Universal Life & General Insurance	
Manufacturing, Trading, Service & Commerce	Legaspi Oil Co., Inc.	Mitsubishi Corporation
	Cagayan de Oro Oil Co., Inc.	Mitsubishi Corporation
	Connell Bros. Co. (Phils.)	Wilbur-Ellis Company
	Makati Machinery & Equipment Co.	
	Beta Electrical Co., Inc.	
	Philippine Overseas Trading	
	Globe-Mackay Cable & Radio Corp.	American Cable & Radio Corp.
	Pan Pacific Commodities Corp.	Mitsubishi Corporation
	Palawan Apitong Corp.	Mitsubishi Corporation
	Acme Engineering & Management Association, Inc.	Mitsubishi Corporation
	Luzon Inter-Coast Co., Inc.	Mitsubishi Corporation
	Diamond Cement & Industrial Corp.	Mitsubishi Corporation
	Agusan Wood Industries	Mitsubishi Corporation
	National Lead Co. (Phils.), Inc.	NL Industries
	Philippine Psychological Corp.	
	Pure Foods Corporation	Hormel International Corp.
Hotel & Tourism	Philippine Hotelier Inc.	Japan Air Lines Development Co., Ltd.
	(Manila Garden Hotel)	Mitsui Group; The Bank of Tokyo, Ltd.; Taisho Marine & Fire Insurance
	Manila Peninsula Hotel, Inc.	Hongkong & Shanghai Hotels, Ltd.; Hongkong & Kowloon Wharf & Godown Co., Ltd.; Swire Pacific Ltd.
	Davao Insular Hotel Co., Inc.	
	Calatagan Resort, Inc. (Punta Baluarte)	
Agricultural	Lapanday Agricultural & Development Corp.	
	Davao Grains, Inc.	
	San Antonio Meat Industries	
Real Estate & Construction	Ayala Realty Development Corp.	
	Makati Development Corp.	
	Darong Development Corp.	

Source: [Ignacio 1983: 298-300]

Further in 1974, AC and its partner Mitsubishi acquired an American firm, Legaspi Oil Co., which was the largest coconut oil miller in Southeast Asia with the largest copra buying network. Legaspi Oil was a member of the three-company copra oligopoly that also included Granexport Manufacturing and Lu Do & Lu Ym. However, AC and partner were eased out in 1978 when Marcos and his business allies decided to corner the coconut industry. Reentry into the agribusiness industry was made in 1981 with the formation of Ayala Agricultural Development Corporation (AADC), a company engaged in the production and distribution of corn seeds from materials and technology supplied by Pioneer Overseas Corporation, an American firm.

AC also extended its presence to commerce and services. It entered trading and distribution in 1975 through the acquisition of majority control of Connel Brothers as well as Makati Machinery and Equipment Co. In 1980, Ayala Trading was organized as a division to export mangoes, bananas, toys, garments, plywood and wood products. Offices were organized in San Francisco, Tokyo, Hong Kong and Singapore. Likewise, AC gained majority control of Globe Mackay Cable & Radio Co. (GMCR), a leader in telegram, telex and facsimile services.

In manufacturing, more firms came under AC's portfolio starting in the mid-1970s. It was not clear *why* AC went into manufacturing but entry in this sector was facilitated by joint ventures, which was an increasing trend for expansion by domestic firms in those days. In 1976, with Mitsubishi, AC acquired the majority stake in D. O. Plaza Enterprises (subsequently renamed as Agusan Woods), a company engaged in wood and wood products. In 1978, a joint venture project was established with German firms for the production of "powernet," a raw material for garments. Then, in 1980, Integrated Microelectronics, Inc. (IMI) was formed as a joint venture with the Carlos family for the assembly and export of semiconductors. IMI clients were initially American computer firms. Finally, in March 1991, Ayala secured majority ownership of Integrated Polymers Corp., a firm engaged in the manufacture of polyurethane products for export.

In banking, Enzo made BPI become more aggressive while keeping it solvent. For instance, branch operations were enlarged from 29 in 1974 to 47 in 1975. Geographical expansion was also pursued outside of the country. In 1980, BPI and AC established the Asian International Bank in New York. Also, BPI partnered with Bruneian businessmen for the establishment of Island Development Bank (Brunei) Ltd. In the Philippines, BPI was in an acquisitive mode. It acquired the Commercial Bank and Trust Company in 1981. AC also had a 40-percent equity in Banco de Oro but later sold it when it deemed that it could not be in the majority position. Further, in 1981, both BPI and AC tried to bid for Banco Filipino (BF) when the latter was having serious internal problems.

In insurance, Enzo engineered the mutualization of Insular Life Assurance Co. This meant that ownership of the company would be passed on from 173 stockholders to over 180,000 policyholders. The amount of sale of AC shares (prior to interest charges on installment) was 255.8 million pesos or about 40 percent of AC's total assets in 1976. With

Insular Life's mutualization, AC then positioned its other insurance companies to serve particular market segments: Filipinas Life for industrial or group life insurance, FGU for non-life, and Universal Reinsurance for professional reinsurance services.

In finance, AC had a subsidiary, the Ayala Investment & Development Corp., an investment house active in stock brokering, money-market operations, and corporate financing. In 1978, AIDC was the third largest investment house in terms of revenues the Philippines but was a rapidly growing concern with returns on equity of 25.6 percent in 1978, 31.6 percent in 1979 and 28.2 percent in 1980.

The Enzo administration began to crumble starting in late 1980. In December 1980, a number of long-time, top level executives resigned their posts, including AIDC president Jovencio Cinco. In January 1981, the Dewey Dee scandal struck, which saw the default by officers of Continental Manufacturing Corp. on a 37-day AIDC loan amounting to 4.5 million pesos. AIDC was formally absorbed by BPI two years later. In 1982, AC began to divest various businesses.

Then, in January 1983, Enzo engaged in a costly boardroom battle against the Soriano leadership of San Miguel Corporation. The Sorianos won the battle. However, both Enzo and the Soriano sold back shares, which ended up in the hands of Marcos ally, Eduardo Cojuangco. The latter became the largest controlling interest of San Miguel. This series of fiascoes must have cost Enzo his presidency. In October 1983, at the age of 57 he retired from the company. Enzo was replaced by cousin Jaime Zobel de Ayala (JZA). His shares at Ayala were bought back by Mermac but in exchange Enzo acquired Ayala International. Relationships with family members became more strained later.

4. Management after Enzo: JZA and Sons

JZA's succession came at a time of national political and economic crisis. In August 1983, political leader Benigno Aquino was assassinated, sparking a civil disobedience movement up to February 1986. Also, a prolonged financial crisis was triggered resulting in capital flight and dollar salting. JZA responded by employing certain survival strategies. First, in 1983–84, AC improved its liquidity and solvency positions by retiring major liabilities. Second, it undertook cost cutting programs that reduced expenses by 28 million pesos in 1985.

Third, AC consolidated its positions in a few chosen industries such as banking, electronics, food and agribusiness while divesting most of its manufacturing businesses. In 1984, BPI absorbed the Family Bank & Trust Co., forming a new subsidiary in consumer banking known as BPI Family Bank. Pure Foods likewise consolidated its market position by establishing an integrated poultry business comprising of poultry production and feedmill operations.

Fourth, AC promoted synergy such as BPI's intermediation for foreign exchange reallocation between importing and exporting subsidiaries during the foreign exchange shortage of the mid-1980s [Marasigan 1997]. Finally, AC launched a reorganization

program that streamlined management, and screening managers of their loyalty, intelligence and experience. Through these strategies, AC was not only able to survive but emerged as the largest family-controlled conglomerate in the post-Marcos era.

Koike [1993b] examined AC's activities, strategies and ownership-management structure during the Aquino administration. By way of summary, Ayala grew stronger as a diversified conglomerate with effective management controls during the said administration (1986–92) and extending to the Ramos period (1992–98). In December 1994, at the age of 60, JZA retired as president but retained the chairmanship. Jaime Augusto (JAZA), his son, succeeded him.

JAZA, an economics graduate with an MBA degree from Harvard University, said that his primary role as president was to “make sure that all our companies are capitalized properly and make sure that the right persons are in the right place to have the dynamism necessary” [Young 1995]. The other family member in the top management was Fernando, JAZA's brother. Fernando was in charge of international operations, which had yet to recover following the sale of Ayala International to Enzo in 1983.

From 1986 to 1996, AC's major diversification activities could be characterized as: 1) corporate reorganization and transformation of AC into a pure holding company, 2) AC's diversification into new fields and 3) diversification and expansion of subsidiaries and affiliates.

In 1988, AC proceeded to become a pure holding company by spinning off its real estate business, resulting in the formation of Ayala Land, Inc. (ALI). Then, hotel subsidiaries were placed under a new holding company, Ayala Hotels, Inc. (AHI), in which both AC and ALI each had 50 percent share. ALI managed AC's real estate, hotel and related businesses.

These moves were part of the reorganization that began in 1983 experimenting on the best ways of managing a diverse portfolio of businesses. Lead directors were appointed to head a *konzern*, or an umbrella of direct subsidiaries and affiliates. As shown in Appendix 1, by 1996, there were about 18 direct subsidiaries and affiliates organized under seven to eight *konzerns*. There were seven senior managing directors and 16 managing directors who supervised Ayala's deep portfolio structure.

As a pure holding company, one of AC's jobs was to look for new opportunities that can be exploited. From 1986 to 1996, the company entered into information technology, automotive, utilities and infrastructure-related businesses. Further, telecommunications affiliate, GMCR, was reorganized as a joint venture Globe Telecoms so that the company could join the deregulated telephone industry. Entry into information technology was represented by two subsidiaries, namely: Ayala Systems Technology, Inc. (ASTI) and EDINet Philippines.

ASTI, formed in 1988, was engaged in computer marketing, software and consultancy. EDINet provided electronic documentation and transactions services for large institutions. In 1994, the two companies were assigned to Rizalino Favila, a former IBM

executive. The two companies worked closely with Globe Telecoms, headed by Filemon Berba, formerly of Westinghouse Asia Controls Corporation. These three companies represented AC's new thrust in high technology businesses.

AC also took advantage of the Philippine automotive industry, which resumed growth since the late 1980s. In 1990, the company entered into a joint venture with the Yuchengco⁴⁾ group's Rizal Commercial & Banking Corp. (RCBC), Mitsubishi Corp. and Honda Motors for the assembly and sale of Honda Cars. By 1996, Honda Cars led the passenger car market by capturing a 26 percent share. Then in 1995, AC, RCBC and Mitsubishi once again teamed up to assemble and sell Isuzu brand vehicles. In these two automotive businesses, AC and RCBC each held a 15 percent share of subscribed and paid-up capital.

Then, in 1996, AC entered into transportation-related infrastructure as well as water utilities. The company won a privatization contract from the government Metropolitan

Table 4 Financial Operations by Business Segments Ayala Corporation, 1990–96
(In Million Pesos)

Revenues	1990	1991	1992	1993	1994	1995	1996
Parent Co./Financial Services/Telecommunications	505	1,333	690	742	4,233	3,175	3,518
Real Estate & Hotels	2,340	3,519	3,518	4,904	8,056	9,336	12,136
Food Manufacturing Services & Agribusiness	3,589	4,710	5,372	5,831	6,657	7,271	8,475
Insurance	1,157	1,388	1,735	2,213	2,295	2,679	3,211
Electronics & Information Technology	931	853	684	513	744	1,481	2,273
International & Others			298	595	570	416	13
Net Income	1990	1991	1992	1993	1994	1995	1996
Parent Co./Financial Services/Telecommunications	357	1,136	487	394	2,707	2,366	1,821
Real Estate & Hotels	724	867	1,026	1,238	1,904	2,318	3,514
Food Manufacturing Services & Agribusiness	151	111	108	44	106	197	36
Insurance	24	15	40	181	284	525	694
Electronics & Information Technology	37	– 100	– 116	– 11	– 31	72	206
International & Others			59	194	225	5	– 42
Total Assets	1990	1991	1992	1993	1994	1995	1996
Parent Co./Financial Services/Telecommunications	2,132	2,907	3,216	4,437	9,199	17,257	25,467
Real Estate & Hotels	4,939	9,432	10,189	16,203	24,163	27,052	35,537
Food Manufacturing Services & Agribusiness	2,317	3,179	4,712	5,075	5,220	5,762	6,209
Insurance	1,958	2,111	2,318	2,610	3,124	4,435	8,234
Electronics & Information Technology	1,085	1,195	955	769	925	1,402	1,905
International & Others			302	599	533	597	573

Source: [Ayala Corporation 1991–1996]

Notes: Venture into the telephone industry started in 1993. Figures for International & Others were split with Electronics & IT beginning in 1993. International operations included trading and marketing operations as well as investments in overseas projects. Others included air charter services and joint ventures with companies in automotive assembly.

4) Former ambassador to China during the Aquino administration and to Japan during the Ramos administration.

Waterworks and Sewerage System (MWSS) to provide water supply in Metro Manila's East Zone. For this, AC formed the Manila Water Company, a joint venture with United Utilities and Bechtel of the United States. The company also joined a consortium to construct an 18-kilometer rail transit system that spanned the Epifanio de los Santos Avenue (EDSA). EDSA traversed four important Metro Manila cities and towns including Pasay and Makati in the south as well as Mandaluyong and Quezon City in the north.

As of 1996, the banking⁵⁾ and real estate segments remained the biggest contributors to AC revenues and net income (Table 4). Real estate and hotels was the largest income earner with a share of 56 percent of consolidated profits. An inter-segment comparison indicated low aggregate annual returns to total assets by other business segments despite their leadership in their respective industries. Interestingly, the profit contribution of the food and agribusiness segment declined while insurance began to climb rapidly in 1993. Profits from the insurance segment, which had suffered since Insular Life's mutualization, showed an upward trend such that by 1996, it registered an 11 percent share of consolidated income.

IV Patterns in Ayala's Conglomerate Formation

Rapid conglomeration began in the mid-1960s (Fig. 2) with ownership and management effectively remaining in family hands. As of end of December 1996, Mermac held about 60 percent of AC's outstanding shares. As could be seen from Figs. 2 and 4, amidst varying political and economic environments, the transformation from family firm to a large *zaibatsu* conglomerate was a long-drawn process.

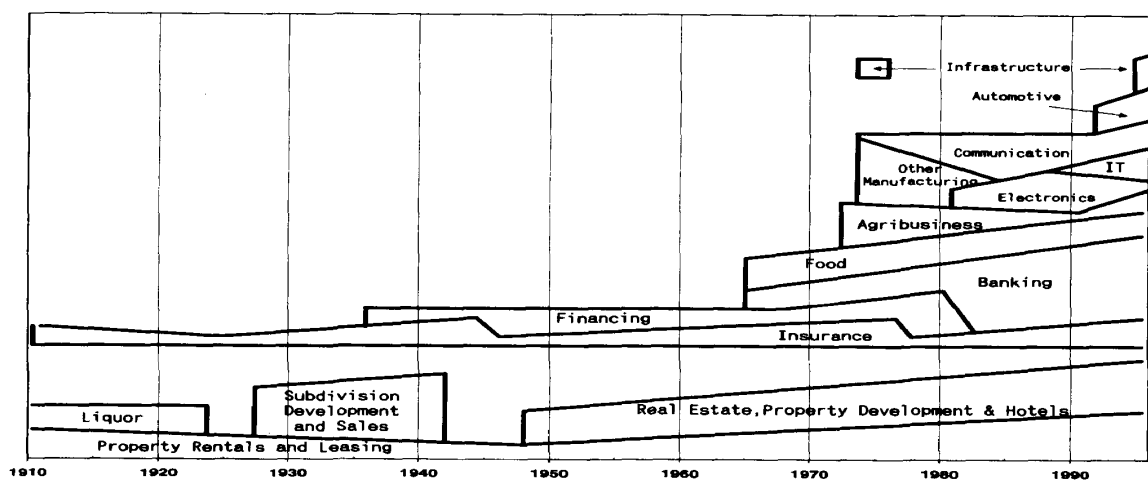


Fig. 2 Diversification Patterns

5) Globe Telecommunications was still experiencing losses during the period.

Initial attempts at conglomeration was facilitated by a combination of internal conditions that included 1) Enzo's aggressive empire building behavior, 2) huge profits generated from the Makati development and 3) the recruitment of a growing supply of managers. From 1914 to 1983, Zobel family relations were also generally stable with no significant effects on the firm reported.

Enzo was an aggressive empire-builder, who was "more involved in operations so he needed a strong staff to back him up" [Marasigan 1994: 28]. Observers and company insiders have seen him as possessing a strong personality and autocratic management style. When compared with JZA, former AC senior vice-president Renato Buhain commented, "We accumulated more businesses with EZ but Jaime tends to focus on certain fields. But both contributed to the company" [*ibid.*].

Little financial information could be obtained until AC's listing with the stock exchanges in 1976. Nevertheless, the extent of AC's financial power could already be seen at such an early stage of conglomeration: In 1974, current assets and investments

Table 5 Number of Top-Level Management Executives, 1975-96 (Excludes President)

Year	Executive Vice-President	Senior Vice-Presidents	Vice-Presidents	Assistant Vice-Presidents	Senior Division Managers	Division Managers	Total No.	No. of FM	FM Rank
1975	0	1	8	0	9	9	27	1	SVP
1976	1	2	10	0	6	14	32	1	SVP
1977	1	3	8	0	12	13	37	1	EVP
1978	1	3	11	0	13	24	52	1	EVP
1979	1	3	15	11	12	20	62	1	EVP
1980	1	5	15	15	13	26	75	2	EVP SDM
1981	1	5	15	15	13	26	75	2	EVP SDM
1982	1	5	10	13	25	28	82	2	EVP SDM
1983	0	4	14	14	21	24	77	1	SDM
1984	0	5	14	18	18	20	75	2	SDM DM
1985	0	6	12	17	17	22	74	2	SDM DM
1986	0	5	12	19	21	14	71	2	SDM SDM
1987	0	5	11	21	23	10	70	2	AVP SDM
1988	0	5	12	12	15	8	52	1	VP
1989	0	6	15	9	14	4	48	1	VP
1990	0	5	15	8	16	3	47	1	VP
1991	0	4	18	10	15	9	56	1	VP
1992	0	7	15	7	15	11	55	1	SVP
1993	0	7	16	7	17	9	56	1	SVP
1994	0	6	16	7	15	10	54	1	SVP

Year	Senior Managing Directors	Managing Directors	Associate Directors	Total No.	No. of FM	FM Rank
1995	7	16	20	43	1	SVP
1996	7	17	21	45	1	SVP

Source: [Ayala Corporation 1975-1996]

Notes: 1. For 1995, the adviser to Chairman and Consultant seemed to have the rank of Senior Managing Director

2. Associate Directors had the previous rank of senior division managers.

3. For 1975 to 1976, Corporate Secretary was considered here with the rank of vice-president, which was formally made in 1977.

Legend: SVP-Senior Vice President; EVP-Executive Vice-President; SDM-Senior Division Manager
AVP-Assistant Vice-President; VP-Vice President; FM-Family Member

constituted 88 percent of company assets (Appendix 3). Further, Table 5 would show that as the company accumulated more businesses, the number of top executives rose starting from 27 in 1975 and peaking to 82 in 1982.

Fig. 3 however indicates that conglomeration was rapidly being achieved through mergers/acquisitions as well as joint ventures/strategic alliances rather than internal development. Such modes of diversification implied that the company was unwilling to undertake the high risks and slow process of building new organizations under a purely internal development mode [Ramanujam and Varadarajan 1989; Penrose 1995].

The balance between risk-taking and risk-aversion was also manifested in Ayala Corporation's financial management. An analysis of Ayala Corporation's performance for the 23-year period would reveal the attainment of generally modest rates of return on

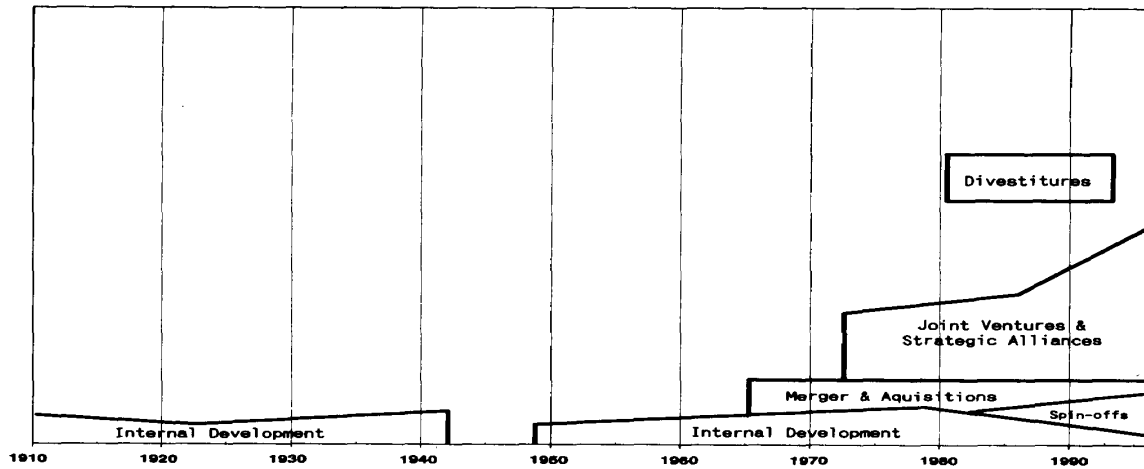


Fig. 3 Patterns in Diversification Modes Used

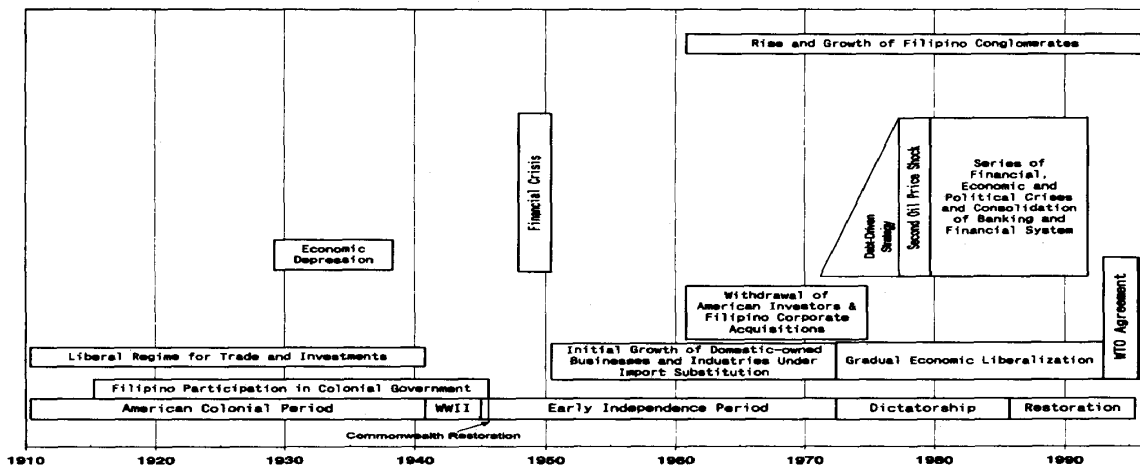


Fig. 4 The Political and Economic Environment

equity (ROE), the use of fair levels of debt, and the maintenance of more than sufficient amounts of liquid assets to pay for short-term liabilities (see Appendix 3).⁶⁾

Yet how then did Ayala attain rapid growth during the period if the ROEs as well as the use of debt and external equity were modest? Aside from the use of large amounts of retained earnings for expansion, one reason was that financial management was aggressive when it came to subsidiary companies, especially non-financial ones. Moreover, careful selection of businesses in the portfolio allowed the parent company to generate large revenues and earnings.

The results of the analysis showed that while the parent company was highly solvent and profitable, subsidiary companies tended to use more debt if net profit margins were lower which in the sample tended to be the case. Even here, financial management by Ayala had not been reckless. To control for risk at the subsidiary level, high levels of liquidity were usually observed to cover up all liabilities, both short-term and long-term (Appendix 4). This strategy was consistent to that of the parent company's management of its own liquidity. In the process, Ayala Corporation could realize high ROEs from its subsidiaries, as long as the latter continued to generate sufficient cash flow to cover for all of its debts, short-term and long-term.

But the period 1981–83 showed a dangerous situation for AC's financial condition. The growth in costs and expenses was faster than revenues during the years 1982 and 1983. Of the increased costs, the rise in interest charges was the most threatening given the trend of bankruptcy among many Philippine conglomerates due to poor liquidity and rising interest rates.

Against this highly uncertain environment of the early 1980s, Ayala's share of interest expense to total costs (called here as the interest expense ratio) rose threateningly to 22 percent in 1983 (Fig. 5). At any time afterwards, when interest rates in the Philippines went up to 45 percent to 50 percent during the 1983–85 period, AC's interest burden would have increased. That would have taken a toll on the company's further expansion, if not its own survival as a family business.

Increased interest burden was accompanied by the unfavorable trend in the ratio of dividends to retained earnings, otherwise called as retention ratio (Fig. 6). Between 1981 and 1983, dividends ranged from about 40 percent to 90 percent of retained earnings. This situation threatened to cut earnings ploughed-back as capital to finance future expansion and contingencies. Thus, Ayala's interest expense and dividend ratios for this period showed a trend of increasing reliance on external sources of capital for expansion, both

6) It will be noted that in 1991 Ayala Corporation adopted a system of reporting financial statements on a consolidated basis. Previously, the financial statements only reflected those of the parent company. According to Ayala's external auditors, the accounting change increased the parent company's total assets and liabilities as well as total revenues and expenses but has no effect on net income or stockholders' equity, which means that measures such as returns on equity are not affected.

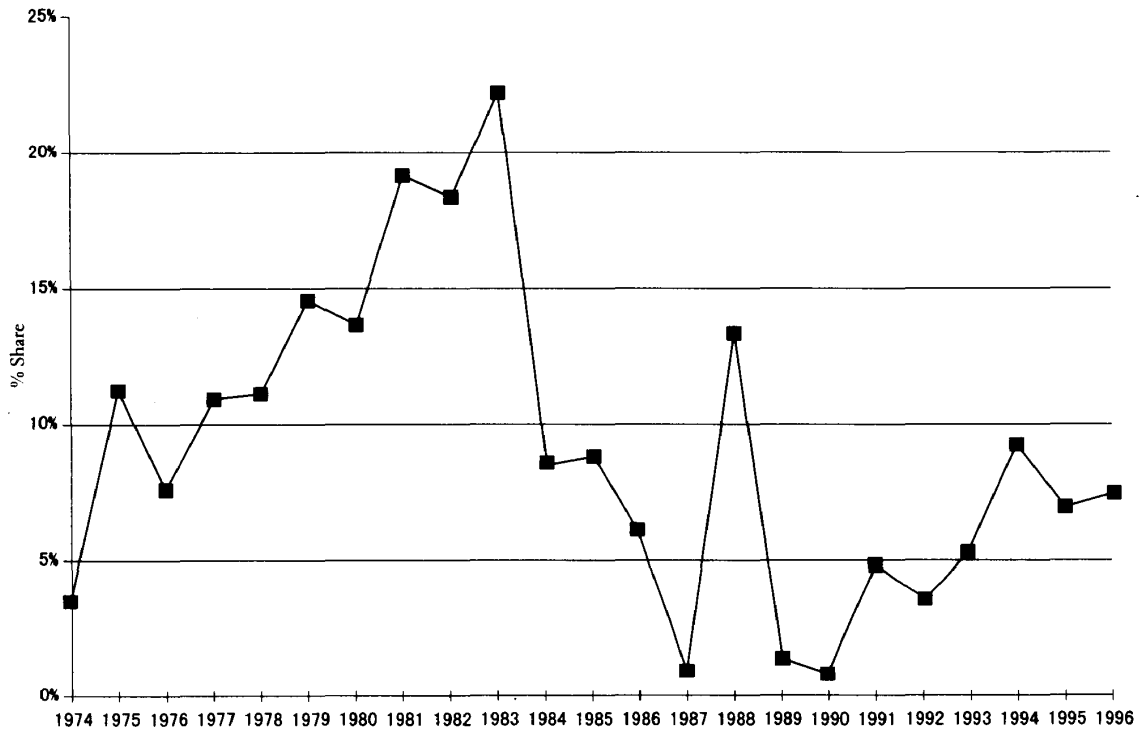


Fig. 5 Share of Interest Expense to Total Costs, Ayala Corp., 1974-96

Source: [Ayala Corporation 1975-1996]

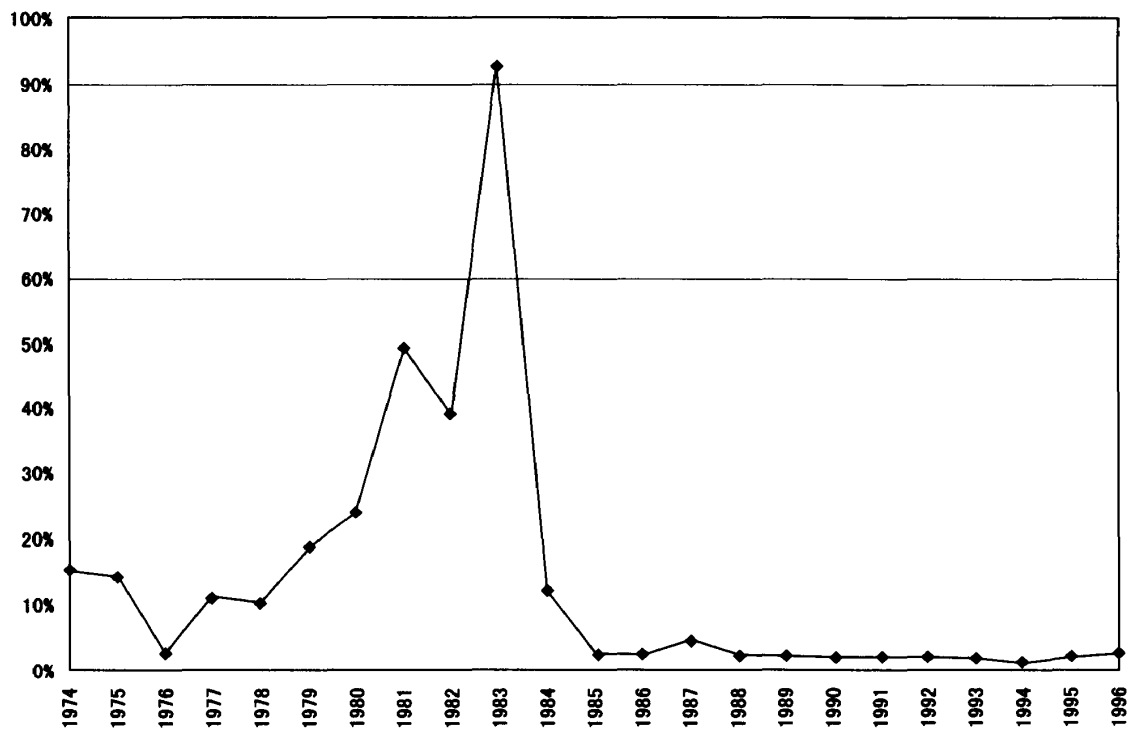


Fig. 6 Ratio of Dividends to Retained Earnings, Ayala Corp., 1974-96

Source: [Ayala Corporation 1975-1996]

in terms of equity and debt.

Despite the financial problems of several subsidiaries including AIDC and manufacturing firms, the Enzo administration continued to have an increasing dividend payments policy and at the same, an aggressive corporate acquisitions program, including the failed takeover of San Miguel Corporation in the first quarter of 1983. These were dangerous signs of over-expansion and, in expanding, top management was relying less on internal sources of capital.

As expected, the majority owners (the McMickings) were very averse to unnecessary risks associated with the expansion of their company. In the years following Enzo's replacement in 1983, both retention and interest expense ratios of the parent company dropped to significantly low levels (although as mentioned in 1991, the company began reporting on a consolidated accounting basis which resulted in the increased interest ratios for the Ayala Group as a whole).

V Management Control System and Historical Antecedents

The above findings lead to the question *why* such risk-averse behaviors were strongly manifested in a continuing high growth process and *how* deviant behaviors were checked. There are historical antecedents to Ayala's risk behavior, which are provided in the following discussion of the company's ownership-management system.

1. *Ownership and Mathematical Control of the Company*

When the company was a partnership, family members could enter or exit as partners based on family consensus. When a partner wanted out, he or she sold the shares back to the company. This preserved the ownership within the family as well as control of the firm within active family members. For instance, Jacobo Zobel, Enzo's father, sold his shares in Ayala because of his preference for the military. This was why Enzo had to buy himself in on loans from the McMickings [Lachica 1984: 157].

Many years before the company transformed from a simple family firm to a major *zaibatsu*, evidence from one of JRM's speeches indicated that he had already considered different types of control.⁷⁾ Accordingly, there were two types of control by which the family could still direct the activities of the growing firm. These were mathematical and

7) As articulated in his speech entitled, "The New Managers," delivered before the Mandaluyong Chamber of Commerce, 8 September 1961. In that speech, he said that if the business becomes bigger than company capitalization could support, "the next step is to raise money from the public, trying to maintain mathematical control in the family." Keeping operating control could be done when mathematical control had to be relinquished due to more public financing. Accordingly, "operating control is workable only so long as an alliance of stockholders doesn't get together to unseat the regime." Operating without mathematical control thus bred a delicate situation, which AC did not get into.

operating control. Mathematical control pertained to ownership of stocks and therefore participation in the board of directors. Operating control referred to systems by which managers could work for the interests of both firm and family. Both types of control were strictly observed in the course of AC's growth and expansion.

When the firm switched from a partnership to corporation, exclusive ownership was eventually surrendered but with the family possessing mathematical control through majority ownership by Mermac. This control logic was replicated in subsidiary and affiliate companies, thus minimizing the disadvantages and social criticisms against the closed, exclusive ownership setup common among several large family firms. Although by no means the best and only arrangement, the solid ownership system effectively countered threats coming from family members. Enzo's replacement led to stock ownership transfers within AC.

2. Organizational Stability and Operating Control

The number of family members in the company had been extremely limited. From 1975 to 1996, the number of family members (including the president) in top management as well as the board of directors never exceeded three. Thus, the family had to ensure that top managers worked for their business interests. For this purpose, certain stability and control mechanisms were employed.

In terms of stability, first, a paternalistic management system was followed. Prior to his retirement, Salvador Lorayes, AC's first corporate secretary said that he had never regretted not leaving the company because among family corporations, Ayala was unique in that "all employees are given a fair share" [Lachina 1984: 157]. Paternalistic management was also based on a system of lifetime employment. Lorayes started work at AC in 1941 since his high school graduation. Work there was his first and last. Moreover, Koike [1993b: 457] observed, "The professional managers who have become Ayala Corp. senior vice-presidents are almost all people who have been actively involved in the Ayala Group's affairs since they were vice-presidents in the 1970s." Similarly, there were others who remained as vice-presidents during the same length of time. This would suggest the stability generally achieved by the company in terms of retaining its top-level human resources.

Second, a mandatory retirement policy at the age of 60 provided new generation managers with incentives for upward mobility. This was justified by JRM [1956b] as follows:

We think that another important thing to hold a capable young man in our organization is his conviction that not only preselected insiders get to the top. And more importantly, when a man reaches the top, he doesn't remain forever until dead, mentally or physically. We have adopted a retirement age of sixty. This may be young for some people but for a line job, for direct operations, the premium is on youth. We want our young executive to feel that his future will

not be bottled up. We may retain the exceptional man after age 60 for staff functions but not for a line job.

In terms of operating control, AC employed certain structures, routines and ideological properties. First, an executive committee was set up to discuss policy decisions. This committee was composed of representatives from the Ayala family, AC and Mitsubishi. In 1976, two committee members were Zobel (the chairman and vice-chairman). One member represented Mitsubishi interests and two other regular members were AC insiders. Before being phased out after 1990, there were only three regular committee members.

Second, during Jaime's term as president, a management committee was set up to replace the executive committee and thereupon handle issues at the Group-level, mainly regarding urgent and strategic directions for the Ayala group. The management committee consisted of special representatives and top managers of Ayala's lead businesses. Usually, two members of the Zobel family belonged to the management committee. From 9-members in 1991, the management committee's composition increased to 12. Fernando Zobel, JAZA's brother, joined it in preparation of Jaime's impending retirement as chairman.

Third, further control was ensured at individual businesses while allowing for managerial initiative. Below the Group level, Ayala's organizational structure as presented by Ferrer [1990] would suggest that the control system actually had what Peters and Waterman [1982] called loose-tight properties. Loose management properties were indicated by a decentralized structure whose lead directors⁸⁾ were given sufficient decision "leeway" [Marasigan 1994: 28].

However, at the same time, internal and external control functions were dispersed in various corporate departments. The Strategic Planning Group appeared to have most of the internal control functions. Through this department, AC usually posted chief financial officers (CFO) to subsidiary and affiliate companies [Koike 1993b: 456]. They were tasked to assess and report the financial state of affairs of the subsidiary or affiliate where they worked for, reporting to the president of that subsidiary/affiliate. The CFO's then formally reported to AC's comptroller.⁹⁾ In turn, the comptroller (who also heads the

8) A lead director administered a designated business area, which was an umbrella of companies engaged in related businesses, e. g., insurance. The lead director concurrently held the position of president of some of the companies within this umbrella.

9) In other companies, the comptroller (or controller) would have the following responsibilities: 1) design of the accounting system, 2) operation of the accounting system, 3) tax planning and accounting, 4) budgets and budgetary control, 5) internal audit, and 6) operational review. See for instance, Carl Moore, Robert K. Jaedicke, and Lane K. Anderson [1984: 3-4]. At Ayala, not all of these functions were vested in the comptroller. For instance, internal audit was placed under the corporate secretary's Board Staff. Likewise, operational review was more of a group process.

Strategic Planning Group) reported to Ayala Corporation's top management.

Other departments also exercised control functions including internal audit by the Board Staff, treasury by the Office of the Treasurer, general services and human resource by Corporate Services. Further, Strategic Planning, Corporate Services and Board Staff also had functions that guarded the Group against external threats, e. g., from the media or hostile external parties.

Finally, the family's continued dominance in the course of expansion was aided by ideological control. Realizing that future management would be in the hands of non-family managers, JRM [1961] emphasized "stewardship" among AC's managers, both family and non-family members alike as could be gathered from the following passage:

Following the loss of operating control by a family group of owner-stockholders, management transfers to professional managers. These men, coming from the ranks or through technical and business schools, assume the responsibilities and prerogatives of owners. Not understanding the "stewardship" responsibility of their position, they sometimes act with arrogance and disdain for public good and stockholder benefit. But generally, high caliber men react well as professional managers. When their background is sound and they have been properly indoctrinated, they realize that they are only temporary Trustees (underscoring mine).

Thus top managers were screened for their loyalty, diligence and intelligence to become guardians—stewards—of the family's wealth. This was confirmed by JZA who following his succession, reorganized management and said [JZA 1995: 5], "Certain qualities were essential in successfully confronting any situation: loyalty, intelligence and the sure touch of long experience."

JRM [1956a] also revealed that "stewardship" was part of the training received from previous family managers as follows:

When you are connected with an organization that is steeped in long tradition, you take it for granted that the organization will live into the future as much as it has existed in the past. The elders under whom I had my training constantly reminded me that the future would be assured only if we could think in terms of decades, instead of putting undue weight in the immediate future. I was told that what we administer today was the fruit of the efforts of predecessors who 20 or 40 or 60 years ago believed in the future of the country. Following the same road, my job today is to train successors along the traditions and line of thinking that I was trained, and to develop within the limits of my capabilities, new projects which my successors will administer 20 and 40 and 60 years from now.

The preceding discussion indicated that, from selection and promotion up to individual performance, institutionalized mechanisms were enforced for the family's continued control of managerial behavior and activities.

VI Non-Partisan Politics

Risk avoidance was further extended in the political realm where 1) no family member joined electoral politics and 2) family and firm rejected the use of political influence for rent seeking. As a matter of policy and tradition, AC declared its rejection of the indiscriminate use of political influence for private gain [Ferrer 1990: 81]. Further, family managers shied away from partisan politics, perhaps because of the traumatic experiences during the Spanish colonial period that involved various members of the family.¹⁰⁾ In the first half of the 20th century, family members mixed with politicians and government administrators but did not use these connections to expand their empire.

JRM had been adamantly against such rent-seeking activities, which characterized many a Filipino entrepreneur. He considered government support to be not only “paternalistic” but also “self-defeating.” Friends were telling him that firms of Ayala’s size could not do without political power, even for protection. In response to friends who insisted on Ayala’s political involvement, JRM said, “In all the years I have been in business, I neither solicited nor received any direct government support or political assistance, and I have found that I can do without it” [Dumlao 1969: 14].

However JRM believed in the citizen’s right and obligation to express his or her views towards good government [*loc. cit.*]. Enzo and JZA also expressed their views as representatives of the business community. During the height of the civil disobedience movement against Marcos, based on his message to stockholders in the 1985 annual report, JZA encouraged employees and officers to exercise their right of expression although the company “as an institution did not adopt a partisan attitude.”

During elections, the Ayala management appeared to take a neutral stance although it financially supported some candidates. Neutrality meant that there was no clear affiliation with any presidential candidate. During the early Marcos era, critical collaboration strategies were adopted such as those described during the Enzo administration. JZA and his family clearly supported President Aquino and President Ramos but there were no news reports implicating family members and AC executives in regard to obtaining special government favors. In fact, during these two presidential administrations, there were a number of conflicts reported between AC and government agencies like the Securities and Exchange Commission. In what ways therefore Ayala family and firm members engaged in politics remained ambiguous. Still, a low degree of political involvement was observed.

10) These included Domingo Roxas and Antonio de Ayala who were implicated in a local uprising and hence imprisoned. Roxas died in jail, Roxas grandchild, Pedro Roxas, was also accused of supporting the Philippine revolution. He went to exile in Europe but Spanish government authorities seized his properties in the Philippines. All three were cleared of charges against them.

VII Concluding Comments

In the process of growth, serious threats to the family firm's continuity arise. Continuity is based on the preservation of family ownership and management. Agency theory [Jensen and Meckling 1976] for instance suggests that the managers' ("agent") tendency to over-expand the scope and size of the firm leads to conflicts with stockholders ("principal") since this raises the risk of transferring firm control from existing stockholders to bondholders (or creditors) and new stockholders. Some growing family firms tend to be swayed by the temptation of firm expansion at the expense of continued firm ownership and control.

The risk factor to continuity could be extended to the political realm where threats to ownership-management independence come from the developing country government. In Park Chung Hee's Korea, for instance, the activities of large family conglomerates were often aligned with the government's national development agenda. Moreover, in many developing countries, business families either provided financial support to political candidates or even encourage family members to join politics. Empirical evidence [McCoy 1994; Morikawa 1992] showed that the closer the nexus with government, the lower the chances of survival since favors derived from one political administration could change to disfavor in another administration.

Ayala's business history represents a *zaibatsu* that became the largest in the Philippines without characteristically using political favors for its enlargement. This contrasts with the largest *zaibatsu* in prewar Japan (Mitsui and Mitsubishi) and South Korea (Samsung) and even Indonesia (Salim) and Thailand (Bangkok Bank) all of which have histories of characteristically utilizing government support and favors to enlarge their business empires.¹¹⁾

There are at least four reasons that could be surmised for Ayala's rejection of political favors. First, as pointed out earlier, there were traditions and policy based on previous traumatic experiences. Second, during the first half of the 20th century, the managing partners did not seem to be interested in expanding the company's scope since they were preoccupied in insurance and civic activities. Third, the risks inherent in

11) There are several works pointing to the government-*zaibatsu* relationship in modern Japan. Pieces of this relationship could be found in corporate biographies written in English, particularly those by Roberts [1989] and Mishima [1989]. Historians also underscored this relationship, e. g., in Morikawa [1992], Allen [1980] and Hirschmeier and Yui [1975]. The close relationship between government and *chaebol* in South Korea is also well-known and well-researched accounts about Samsung could be read from Jones and Sakong [1980] and Kim [1988]. For Indonesia's Salim group, Sato [1993] provides a good history. Finally, Suehiro [1989] discusses the alliance of Thai's Big Four including the Bangkok Bank group (or Asia Trust headed by the Chin family) with the military and political establishment.

seeking political favors would defeat the purpose of "stewardship," which has been ingrained in the minds of family leaders and non-family executives. Finally, in the latter half of the century, there was no need to ask for government favors since empire-building aspirations could be achieved by excess funds derived from Makati's successful development.

The Ayala model further shows the continuing role of the family in *zaibatsu* ownership and management. Generations of family managers have succeeded to keep management control. Even as the family firm diversified to significant proportions, a great deal of organizational stability has been generally ensured by preventing any serious divergence of principal-agent interests. This would explain why for instance securing external financing for growth has been kept at very manageable levels in the parent company. If there were serious agency problems such as that had transpired during Enzo's administration, the firm's majority owners have proved decisive in replacing top executives, both family and non-family members alike.

Even within the family, ownership, on the one hand, and management, on the other, was somehow separated. This represented two potentially conflicting parties since the firm's growth would be in the best interests of family managers while profit were usually in the majority owners' best interests [Marris 1963]. The unifying elements between the two were institutional and ideological. First, principal-agent problems were reduced since individual family managers also owned substantial shares in the company. Second, family members were driven by the responsibilities of stewardship. Stewardship as an organizational ideology has worked to conserve capital and look forward to the future. It makes managers more keenly conscious of risks.

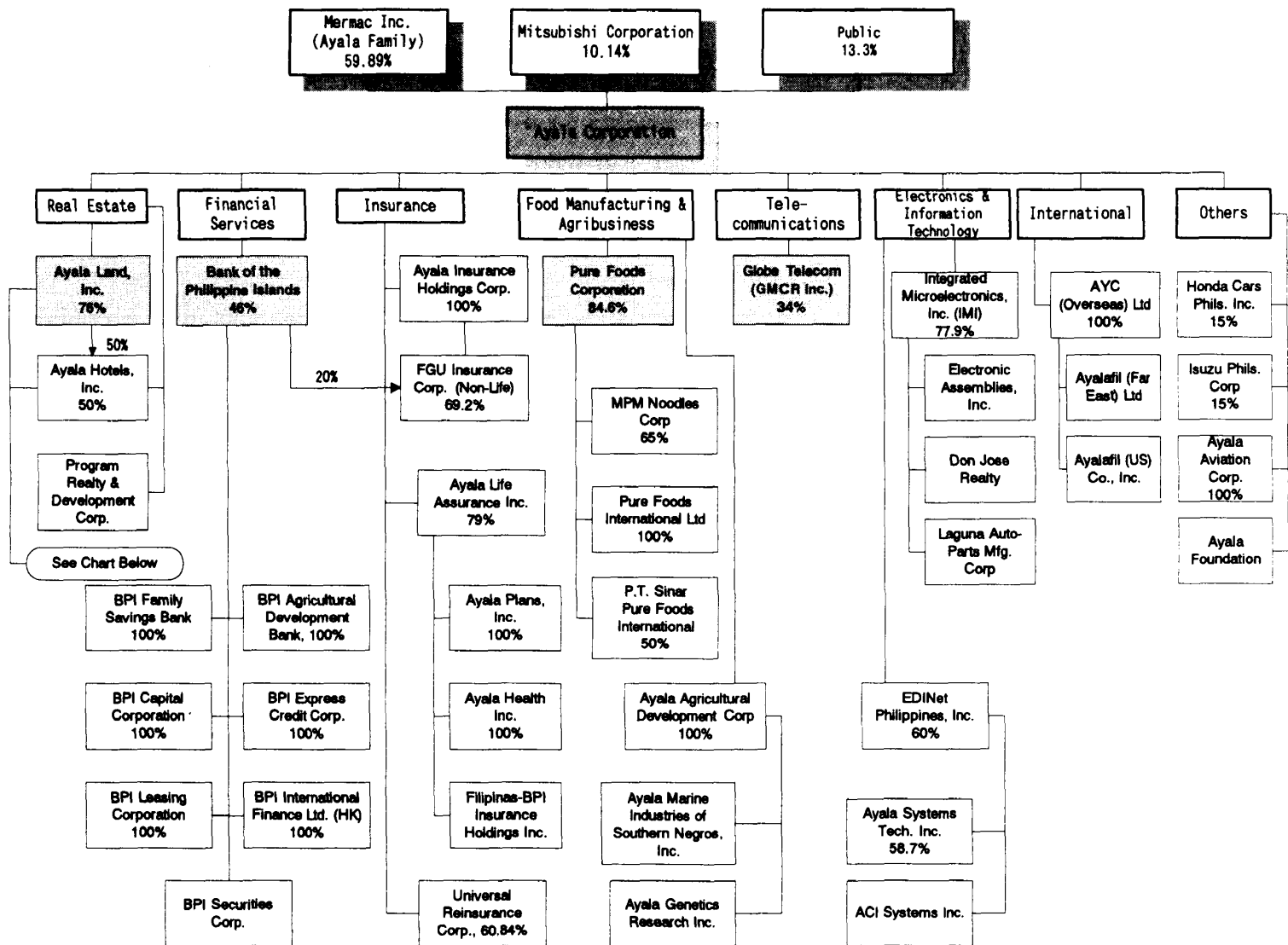
In terms of entrepreneurship, each generation has been able to contribute to the firm's growth. It is entrepreneurs like Enzo which expanded the Ayala business empire. From there, the breadth and depth of AC's portfolio could be attributed to both family and non-family executives. Thus, while stewardship preserves capital, entrepreneurship seeks its creation and growth. Indeed, there is a delicate balance between the two but as one Ayala executive noted, "The key is in the numbers and planning."

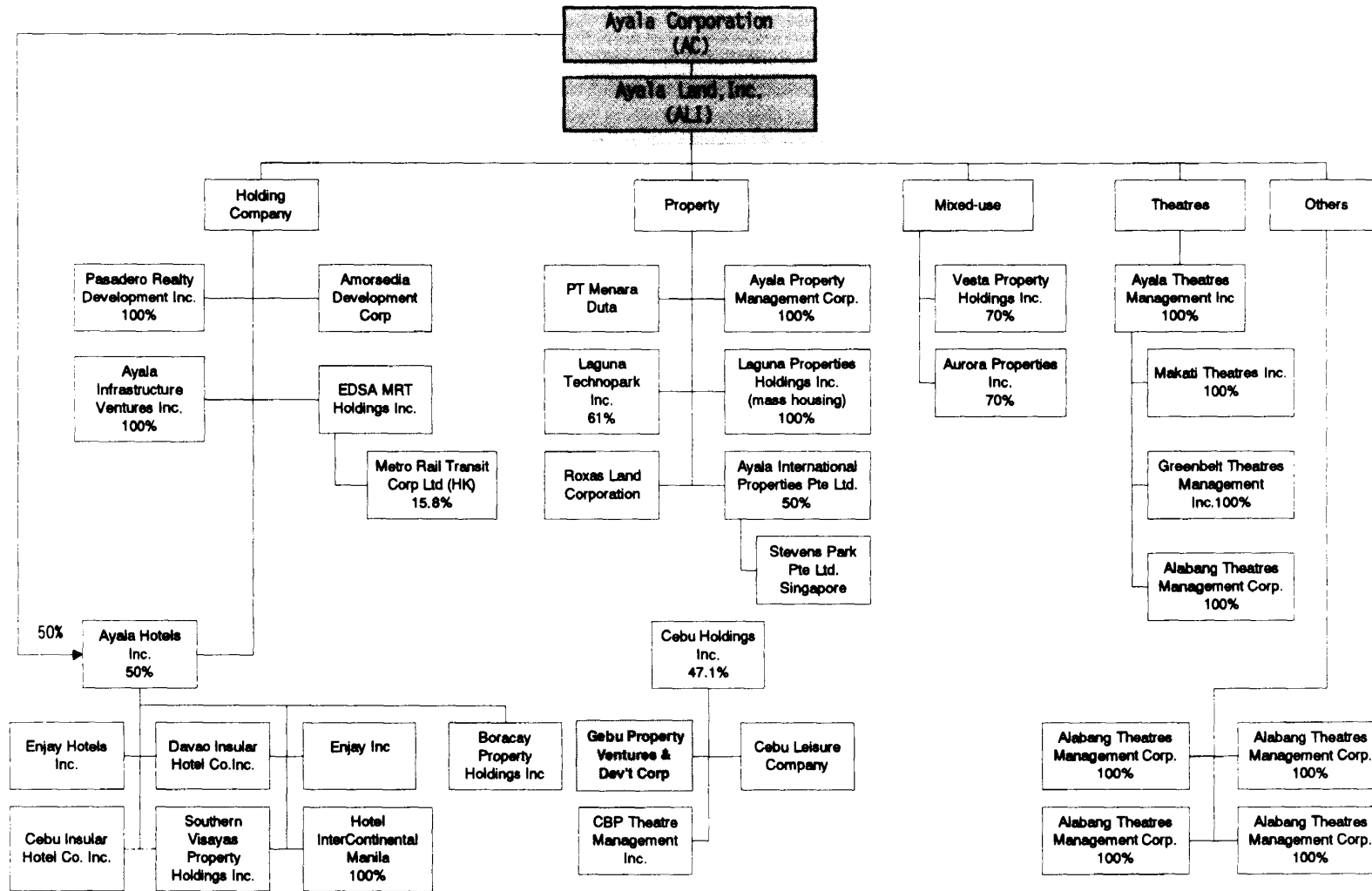
This paper has attempted to provide an empirical base as well as an interpretation for Ayala's development as a *zaibatsu*. The investigation of patterns of its recent development as a conglomerate leads to the underscoring of the role of stewardship, which have historical antecedents in the company's ownership-management system.

The tentative conclusion reached is that stewardship guides the direction of entrepreneurship as well as family-firm relationships. The quality of stewardship offers to explain why some family firms survive and fall in the course of time and expansion. The stronger the practice of stewardship in a particular generation, the better its chances for survival as far as ownership-management is concerned. It is not therefore inevitable for some family firms to transform into financial or managerial enterprises in the process of growth as long as they adopted superior strategies for preservation. Accompanied by

skillful entrepreneurship, stewardship assures the continued growth of the family firm. It is hoped that this insight would contribute to future research regarding the theory and practice of growing family firms in general and *zaibatsu* development in particular.

Appendix 1 The Ayala Group of Companies (As of December 31, 1996)

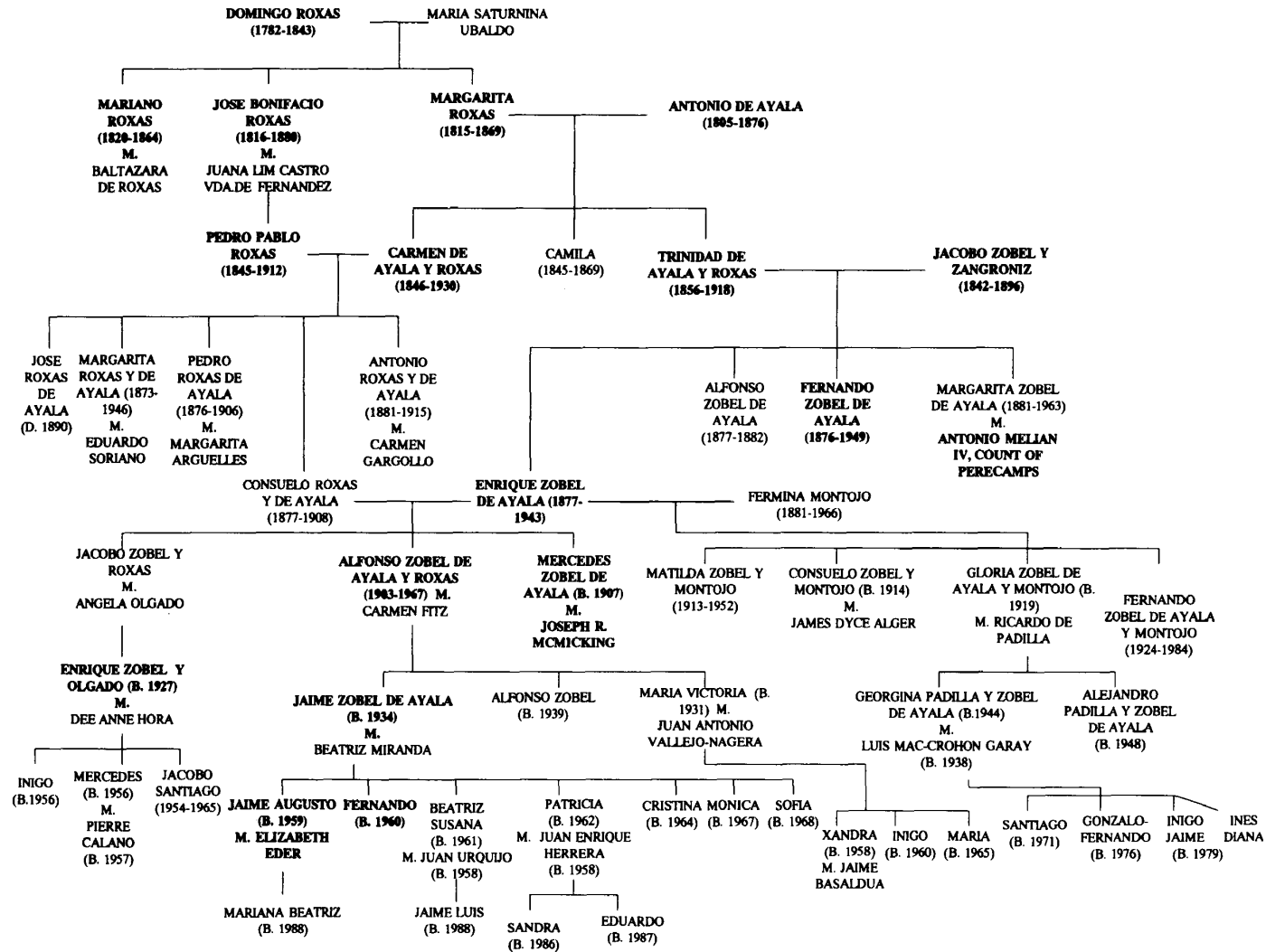




Source: [De Guzman 1997]

Note: Shaded boxes show companies listed at the Philippine Stock Exchange.

Appendix 2 Genealogy of the Zobel de Ayala Family



Source: [Lachica 1985; Koike 1991]

Notes: B-Birthyear; D-Deathyear; and M-married. Bold letters mark managing family members.

Appendix 3 Financial Highlights and Performance Indicators, Ayala Corporation, 1974–96**I. Financial Highlights, Ayala Corporation, 1974–96**

Year	Current Assets	Investments	Total Assets	Current Liabilities	Long Term Debt	Total Owners' Equity	Gross Revenues	Net Income
1974	58,726	261,614	361,505	50,306	46,530	264,669	105,982	59,662
1975	99,897	318,451	479,094	58,219	93,238	327,637	139,290	66,502
1976	125,512	427,100	646,676	78,617	96,026	472,032	258,626	144,863
1977	264,009	482,641	866,205	142,548	130,891	592,766	272,374	143,146
1978	305,918	554,550	1,008,572	189,062	122,230	697,280	223,223	130,142
1979	306,823	662,502	1,238,553	186,405	254,204	797,944	259,465	151,835
1980	379,036	689,280	1,402,804	218,838	274,479	909,487	337,375	167,507
1981	419,531	814,616	1,497,748	328,044	167,127	1,002,577	389,358	150,613
1982	543,818	869,601	1,783,780	474,017	266,399	1,043,364	399,638	104,754
1983	616,197	620,223	1,632,476	269,936	337,333	1,025,207	657,914	116,373
1984	620,851	651,094	1,791,217	398,712	256,126	1,136,379	635,925	142,272
1985	506,212	1,326,236	2,537,481	315,124	356,163	1,866,194	773,871	228,722
1986	498,542	1,563,141	2,716,197	132,780	348,019	2,235,398	843,614	400,926
1987	596,259	1,955,719	3,399,831	301,046	414,155	2,684,630	974,506	515,662
1988	987,741	2,751,890	4,360,293	568,679	418,120	3,373,494	1,408,981	743,092
1989	538,000	4,185,150	4,794,792	171,187	72,393	4,551,212	1,370,403	1,243,133
1990	625,551	5,737,500	6,529,589	169,754	541,346	5,818,489	1,445,498	1,292,519
1991	6,805,025	4,634,178	18,823,993	2,874,764	3,868,584	12,080,645	11,803,417	2,028,612
1992	6,080,911	6,296,082	21,692,264	3,024,660	4,837,747	13,829,857	12,297,622	1,604,081
1993	8,507,988	9,886,502	29,481,651	5,577,278	6,994,328	16,912,045	13,988,350	2,040,116
1994	19,192,780	12,409,783	43,163,531	8,606,756	9,987,817	24,568,958	22,555,409	5,195,181
1995	23,762,906	18,005,538	56,504,870	9,864,075	14,675,620	31,965,175	24,358,434	5,483,046
1996	29,575,666	23,329,155	77,924,712	11,541,881	24,293,544	42,089,287	29,626,208	6,228,708

II. Financial Performance Indicators

Year	Total Liabilities % of Total Assets	Sales to Total Assets	Net Profit as % of Total Sales	Net Profit as % of Total Assets	Net Profit as % of Total Equity	Current Assets to Current Liabilities
1974	12.87%	0.29	56.29%	16.50%	22.54%	1.17
1975	19.46%	0.29	47.74%	13.88%	20.30%	1.72
1976	14.85%	0.40	56.01%	22.40%	30.69%	1.60
1977	15.11%	0.31	52.55%	16.53%	24.15%	1.85
1978	12.12%	0.22	58.30%	12.90%	18.66%	1.62
1979	20.52%	0.21	58.52%	12.26%	19.03%	1.65
1980	19.57%	0.24	49.65%	11.94%	18.42%	1.73
1981	11.16%	0.26	38.68%	10.06%	15.02%	1.28
1982	14.93%	0.22	26.21%	5.87%	10.04%	1.15
1983	20.66%	0.40	17.69%	7.13%	11.35%	2.28
1984	14.30%	0.36	22.37%	7.94%	12.52%	1.56
1985	14.04%	0.30	29.56%	9.01%	12.26%	1.61
1986	12.81%	0.31	47.52%	14.76%	17.94%	3.75
1987	12.18%	0.29	52.92%	15.17%	19.21%	1.98
1988	9.59%	0.32	52.74%	17.04%	22.03%	1.74
1989	1.51%	0.29	90.71%	25.93%	27.31%	3.14
1990	8.29%	0.22	89.42%	19.79%	22.21%	3.69
Min.	1.51%	0.21	17.69%	5.87%	10.04%	1.15
Max.	20.66%	0.40	90.71%	25.93%	30.69%	3.75
Ave.	13.76%	0.29	49.82%	14.07%	19.04%	1.97
1991	20.55%	0.63	17.19%	10.78%	19.40%	2.37
1992	22.30%	0.57	13.04%	7.39%	13.47%	2.01
1993	23.72%	0.47	14.58%	6.92%	14.73%	1.53
1994	23.14%	0.52	23.03%	12.04%	25.55%	2.23
1995	25.97%	0.43	22.51%	9.70%	20.77%	2.41
1996	31.18%	0.38	21.02%	7.99%	18.49%	2.56
Min.	20.55%	0.38	13.04%	6.92%	13.47%	1.53
Max.	31.18%	0.63	23.03%	12.04%	25.55%	2.56
Ave.	24.48%	0.50	18.56%	9.14%	18.74%	2.18

Source: [Ayala Corporation 1975–1996]

Notes: 1. From 1985 to 1990, figures based on equity method of accounting for investments in companies where it owned 20 percent or more of the investee's stocks.

2. From 1991 to 1996, figures are based on consolidated financial statements.

Appendix 4 Performance of 11 Non-Financial Subsidiaries, Ayala Corporation, 1986-93

I. Current Assets as Multiple of Total Liabilities

Name of Subsidiary	1986	1987	1988	1989	1990	1991	1992	1993
Makati Development Corporation			1.7	1.2	1.2	1.2	1.5	
IMI			1.6	1.5	1.3			
Gold Zack			1.5	1.3	1.8	1.9		
Batangas Bay Carriers			0.3	0.3	0.2	0.6		
AADC			1.9	2.2	2.6	1.6	1.8	
GMCR			1.0	0.9	0.8	0.9	0.4	1.4
ALI			2.2	2.7		5.7	6.3	3.7
Ayala Property Ventures				271.0	30.8			

II. Total Liabilities as % of Total Assets

Name of Subsidiary	1986	1987	1988	1989	1990	1991	1992	1993
Makati Development Corporation	49.0%	50.3%	54.5%	75.3%	79.1%	80.8%	66.4%	57.1%
IMI	52.9%	38.7%	34.2%	39.5%	42.5%			
ASTI						37.9%		
Gold Zack	65.8%	56.3%	53.1%	59.8%	41.7%	43.1%		
Ayala Property Management Corp.	89.8%	88.9%						
Ayala Theaters Management Inc.	85.4%	77.6%						
Batangas Bay Carriers	91.9%	91.5%	87.9%	86.4%	91.4%	90.1%		
AADC	55.6%	47.5%	39.1%	38.7%	33.4%	55.0%	47.6%	39.6%
GMCR	16.2%	48.5%	55.5%	57.1%	68.1%	68.8%	63.8%	34.3%
ALI			46.3%	37.4%		17.6%	15.9%	26.7%
AHI							25.2%	0.9%
Ayala Property Ventures				0.4%	3.2%			

III. Profit Margin (Net Profit as % of Total Sales)

Name of Subsidiary	1986	1987	1988	1989	1990	1991	1992	1993
Makati Development Corporation	3.9%	6.7%	4.6%	5.5%	3.0%	3.5%	6.7%	10.9%
IMI	2.9%	10.9%	11.5%	4.9%	3.0%			
ASTI						0.6%		
Gold Zack	- 1.7%	11.8%	11.2%	8.5%	7.6%	9.0%		
Ayala Property Management Corp.	0.1%	0.8%						
Ayala Theaters Management Inc.	10.2%	9.1%						
Batangas Bay Carriers	2.3%	3.2%	9.1%	2.3%	- 1.2%	2.9%		
AADC	6.8%	10.8%	18.3%	16.8%	21.4%	- 52.0%	- 13.3%	7.9%
GMCR	45.3%	31.5%	25.3%	21.2%	14.3%	12.6%	- 31.4%	- 23.4%
ALI			45.0%	43.2%		41.3%	40.3%	40.9%
AHI							83.0%	61.9%
Ayala Property Ventures				72.2%	65.3%			

IV. Returns on Equity (Net Profit as % of Common Equity)

Name of Subsidiary	1986	1987	1988	1989	1990	1991	1992	1993
Makati Development Corporation	10.6%	24.5%	22.4%	28.9%	21.6%	30.4%	22.6%	25.1%
IMI	7.5%	20.3%	22.7%	8.5%	4.1%			
ASTI						1.2%		
Gold Zack	- 8.8%	46.6%	44.6%	32.3%	24.8%	35.4%		
Ayala Property Management Corp.	10.9%	9.8%						
Ayala Theaters Management Inc.	83.5%	47.2%						
Batangas Bay Carriers	12.1%	21.7%	63.1%	15.9%	- 13.5%	28.7%		
AADC	13.1%	22.7%	37.3%	27.2%	33.3%	- 53.6%	- 29.9%	16.1%
GMCR	38.1%	41.0%	35.3%	30.1%	20.3%	17.1%	- 21.1%	- 4.0%
ALI			5.1%	37.4%		12.2%	14.2%	13.9%
AHI							18.1%	4.5%
Ayala Property Ventures				5.1%	9.4%			

Source: [Mahal Kong Pilipinas Foundation 1987-1994]

Note: Blanks indicate that the company was not included in top 1000 Corporations for that year.

Some companies excluded from current assets as multiple of total liabilities because of no reported data.

List of Abbreviations

AADC	Ayala Agricultural Development Corporation
AC	Ayala Corporation or Ayala y Compania (Ayala y Cia)
AIDC	Ayala Investment & Development Corporation
AHI	Ayala Hotels, Inc.
AIHC	Ayala Insurance Holdings, Inc.
ALI	Ayala Land, Inc.
ASTI	Ayala Systems Technology, Inc.
BPI	Bank of the Philippine Islands
Enzo	Enrique Zobel y Olgado
IMI	Integrated Microelectronics, Inc.
JRM	Joseph R. McMicking
JZA	Jaime Zobel de Ayala
JAZA	Jaime Augusto Zobel de Ayala

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