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Balancing social impact and business outcomes in turbulent times

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BALANCING SOCIAL IMPACT AND BUSINESS OUTCOMES IN TURBULENT TIMES

Jaime Augusto Zobel de Ayala, Chairman of Ayala Corporation, talks about learning and recovering from Covid-19's impact with Tan Chin Tiong.

The Ayala Corporation has been in existence for more than 185 years, so the Group must have witnessed several crises. Now that we are well into the second year of the Covid-19 pandemic, what have you done to make sure that it successfully weathers this protracted crisis?

I do not think we have ever found ourselves in such a situation, where some of our business units had a period of steep drops in revenue—in some cases, down to zero. It was and still is a really unusual set of circumstances.

The first thing we did when we realised the potential repercussions of Covid-19 was to get together as a group of managers and brainstorm the key issues we would face. Upfront was the insecurity that our employees would feel. So within a day or two of the announcement that the country was going into a lockdown, we sent a note to all employees of the Ayala Group saying that our priority as a Group was to protect the health and welfare of all employees and their families. We gave them a significant package of financial help and assured them that their jobs would still be here, assuming this would not go on for an extended period. Aside from that, we also constructed our own Covid-19 testing,

quarantine, and treatment facilities to give our employees the peace of mind that they would receive quality care, even as public and private healthcare facilities filled to capacity.

Then we looked at our business ecosystem. We are a mixed business group and have a number of investments across various industries. We realised that while this pandemic has deeply affected everyone, some segments would need more help than others to survive the crisis. In particular, we interact with more than 250,000 Micro, Small and Medium Enterprises (MSMEs) that are either our clients or partners. Within the first couple of days of lockdown, we offered them rental concessions including condonations, deferral of their bill payments, and waivers of interest charges. Most significantly, we established the Ayala Enterprise Circle to support their business. These initiatives created a positive atmosphere and helped calm the situation.

However, we were concerned about the broader set of participants in the ecosystem, particularly the contractual workers who were caught flat-footed by the hard and long lockdown and were in a 'no-work, no-pay' situation. We knew that there was a lengthy process to go through before the government could reallocate its budget to support these workers. So we came together with about 270 business groups and pooled significant funds to create a

voucher system that would enable these economically vulnerable people to receive food while the government was re-aligning its budget. We decided the best way to distribute these vouchers was through a private sector group called the Philippine Disaster Resilience Foundation, together with the Catholic Church which is very influential in the Philippines and knows these communities well. We helped 2.8 million families, or over 14 million individuals in those first weeks. We also worked on several other private-public partnerships, like converting a convention centre into a 500-bed facility and donating a number of biomolecular testing laboratories, testing kits, and personal protective equipment (PPE) to local government units and frontliners.

Has there been any change to your leadership style and strategy in the 'new normal'?

The way I managed the company became much more personal as a result of the pandemic. I was meeting my brother and all our key executives daily over Zoom; we had never met that often previously. We were also sharing ideas on how to get a better understanding of what was happening on the ground and what the new rules were, which changed by the day. Through this, we built a stronger sense of camaraderie. Given that all the employees were working from home, I addressed them once a week. Essentially, the whole level of communication changed.

I spent the first couple of days of the pandemic reflecting, "What if I were on the other side of the fence? What if I were an investor? A customer? What would I want to hear?" So I revamped everything that I was doing. My leadership conversations became far more intense. I told everyone to focus on bringing our employees back to work safely. We had no idea then about the safety protocol and the equipment that we would need. We were all learning as we went along.

I requested my institutional investor relations team to set up a call with investors who might want to talk to us. I expected 20 to 30 people to take part, but we got 150 instead! I told them that I could not predict what was going to happen, but would share what I was doing. I took them through our testing protocol, what we were doing with our employees, what we were seeing in the market, etc. I also mentioned that I would meet with them every month. I am usually a bit more behind the scenes, but I decided that now, I had to be on the frontline with our investors and employees. The feedback we got was very good. Those first couple of months were intense. At the same time, the new way of doing things fulfils the needs

of today. The immediacy and the ability to talk to many people with ease has been phenomenal.

Most of all, I would say that the biggest change from my perspective is that from an early age, I have been used to planning long-term. Since I became CEO 26 years ago, everything has been planned three to four years ahead. With the pandemic, I decided that we had to break the planning cycle into three shorter phases. We went beyond using "agile" as a mere buzzword and adopted a planning process of two weeks, following strict government quarantines to prepare for resuming operations; followed by two months as we adapted and gradually built resilience; and finally, two quarters to lay the groundwork for transformation. So the biggest change for me was shifting to short-term planning.

We have just concluded our 2021 Group Management Committee Offsite, and are now looking to recover and propel our businesses to stronger growth within two to three years. Our Group is focused on survival in the short term and sustainability for the long term. We realised that there was no blueprint for such an unprecedented situation, so we responded based on the best available information at the time, coupled with common sense, ingenuity, and a commitment to inclusive recovery as a necessary foundation for sustainable growth for the Philippines and for our company.

As a proponent of building sustainability into business strategies, how have recent global events shaped your current perspective on responsible business models?

Even before the pandemic, we had aligned our operations and social impact initiatives to the broader principles of sustainability and shared value. It was intrinsic to our corporation's development. I have always been a strong believer in all these principles, and the pandemic has only deepened this conviction.

To signify our strong commitment to the United Nations Sustainable Development Goals (SDGs), we developed a Sustainability Blueprint with each of our subsidiaries adopting at least one of the 17 SDGs where they would make a

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tangible impact. We track our progress annually, and are presently taking these commitments a step further by setting firm environmental, social, and governance (ESG) targets.

We also realised that adapting to the challenges of the pandemic and natural calamities, and ultimately recovering from it, will require close cooperation among different sectors of society. The government plays a central role in strategy and policy but may be unable to move quickly. The private sector can bridge this gap by being the agile first mover. At present, the top priority that the public and private sectors are working on is the safe, scaled, and swift rollout of the country's Covid-19 vaccination programme. The challenge is quite massive and unprecedented—as a country, we need to complete up to 500,000 vaccinations per day if we are to achieve our target of herd immunity this year. We are helping the government plan and execute an end-to-end vaccination roadmap. This includes procuring large quantities of vaccines from reputable suppliers, managing the logistics from port to warehouse to vaccination site, and administering the doses and monitoring the results.

What are some of the key global trends that you are observing very closely? How do you see them informing your next steps?

I am a globalist, and a believer in working off each other's comparative advantages rather than isolating ourselves. I think countries have to learn to co-invest and build rapport with one another. The U.S.-China trade war today is not good for anyone, and I hope the two countries will find a commonality at some point. But out of this have come some opportunities. Supply chains have been severely disrupted, but those supply chains are reformatting and realigning. This will help Southeast Asia if its people are able to take advantage of those realignments.

At the end of the day, China and the U.S. working together economically would be to everybody's advantage. The election of U.S. President Joe Biden, who is known to be a strong believer in building strong alliances with like-minded peers, is most welcome. The U.S. has been the champion of globalisation and democracy for many decades, and it is reassuring that we may see the country once again take up a leadership role in spearheading the adoption of progressive values and frameworks for trade and governance. We may see much stronger ties between Asia Pacific and the United States. Beyond geopolitics, President Biden's pronouncements on prioritising globalisation and international

cooperation on critical issues, such as climate change, free trade, and democracy, are overarching themes that we can expect to be reinvigorated in the next few years.

Consulting company McKinsey foresees a wave of innovation happening, led by a new generation of entrepreneurs. It has also noted that the Fourth Industrial Revolution, characterised by the near ubiquity of artificial intelligence, big data and analytics, would accelerate. We saw the disparity in impact on MSMEs due to the pandemic—some were devastated while others flourished. However, this wave of small businesses and entrepreneurs would require a slew of new ancillary services and human capital to help them survive and grow.

There will also be fundamental changes in the healthcare system at both the country and global level. Due to the unprecedented collaboration of scientists and the rapid development of vaccines and therapeutics, we may see further innovations in the biopharma space.

Another major trend we are watching closely is the intensifying dialogue regarding stakeholder capitalism on the one hand, and sustainability on the other, not just in terms of the environment, but also in its broadest sense. We have seen the pandemic expose and exacerbate massive economic and social inequities across the world, and humanity's destructive relationship with the environment appears to have been the cause of Covid-19. Recovery from the pandemic and its socioeconomic effects will require a reaffirmation of private and public institutions' commitment to the principles of stakeholder capitalism and sustainability.

Are there any new business areas that will pick up momentum due to the effects of Covid-19?

We saw some sectors blossom during the pandemic, especially those related to healthcare and the digital economy. I believe that several critical industries will accelerate due to the new behaviours enabled by consumers' hyperfocus on health, remote leisure and work, and sustainability in its broadest sense.

We have two financial institutions in our Group. One is the Bank of the Philippine Islands (BPI). And the other is GCash, where we are the pioneers of a mobile payment system, together with Ant Financial of China. Last year, in terms of digital financial services, BPI recorded as much as 90 percent of its transactions through online channels, on top of unprecedented user growth. At GCash, the total user base is already at 33 million, which means one in three Filipinos is a user. The value of transactions that passed through GCash crossed one trillion pesos (US\$20.6 billion) last

year, which was double that for the period of 2017 to 2019 combined. The pandemic essentially unlocked the tremendous potential of digital technologies. We saw unprecedented adoption of e-wallets, e-payments, e-commerce, telemedicine, and online learning. As such, we will need the connectivity infrastructure and digital solutions to sustain this massive shift online, while building strong cybersecurity measures.

Our e-commerce platform, Zalora, saw a significant uptick in essentials and groceries, sports, wellness, and loungewear, and items for children, as more people stayed at home. In just two quarters, these new categories already account for 10 percent of net merchandise value. To help the entrepreneurs using our e-commerce platform better understand rapid shifts in consumer preferences, Zalora launched a data solutions service and a Covid-19-specific sales dashboard to provide brands with insights on shifts in retail trends, current customer needs, and preferences, as well as customer behaviour pre- and post-pandemic.

When we started investing in healthcare more than five years ago, we saw that it was increasingly becoming an important sector in the country for several reasons. Households were beginning to spend more on health and wellness, the government was increasing its healthcare investments, and health outcomes were so poor that it had become a sector ripe for intervention and disruption. Today, Covid-19 has exponentially expanded the value of the healthcare sector. Despite the deep 9.5 percent economic contraction that the Philippines experienced last year, the healthcare sector expanded by 13.8 percent, due to increasing investments by local players and foreign partners. Our healthcare company also launched a telemedicine solution that provided an alternative medical consultation solution, alongside online purchasing of medicines and scheduling of onsite clinic appointments. We are now looking at utilising this platform for vaccination scheduling and monitoring.

How do you expect this pandemic to shape the future workplace? And what soft skills will be important to cope with these challenging times?

What is certain is that we cannot go back to how things were done, especially given the massive digital transformation that has taken place in our workplaces.

I believe there will be a stronger focus on hybrid work arrangements and evaluations based on outcomes, especially in applicable functions and industries. McKinsey estimates that as much as 20 percent of the global workforce can work

remotely and be just as effective. Offices may now have to transition as spaces primarily for socialisation, collaboration, and culture-building, whereas remote working would be best suited for tasks that require deep focus and reflection.

We were one of the first companies to conduct virtual annual stockholder meetings during the early days of the lockdown. All our Group-wide summits were done online. We started with simple Zoom meetings, but eventually invested in studio equipment to ensure high-quality internal productions.

We have been delighted by the significant uptake of the online continuous learning opportunities that we made available to our employees. Aside from having guest speakers conduct specially organised webinars on special interest topics, we also leveraged our existing partnership with Degreed and Coursera to offer free courses to our employees so that, in part, they could keep learning new skills to equip themselves for the evolving jobs and careers in a digital-heavy future.

Taking a page from innovation literature, and adapting a framework by Scott Anthony of Innosight, who has advised our Group on navigating disruption many times, I believe there are five critical behaviours that are greatly important during challenging times. First is curiosity—having that thirst to deeply understand why things are the way they are and exploring possible solutions to these challenges. Second is being customer-obsessed—particularly in deeply empathising and understanding the most relevant pain points of stakeholders in a challenging period, and effectively addressing these pains. The third is enabling collaboration—getting like-minded peers, including traditional competitors and rivals, to work together on a common goal and for shared benefit. The fourth is the ability to manage chaos and ambiguity—especially now when there is such a high level of uncertainty about what is to come in the near future. And the last is the courage to try—the willingness of teams and individuals to conduct intelligent experiments, and pivot or bounce back when original assumptions do not hold.

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