"These days, with the speed of digitalisation and the increasing risk of cybersecurity attacks (something we never spoke about 10 years ago), we have no choice but to move faster through project implementation by a central development team, drawing on best resources and ideas from all operating companies."

David Lau
Founding Board Member
Axiata, 2008 – 2020

I was really taken aback at the last Axiata AGM when it was pointed out by a shareholder that I have remained on the Axiata's Board for too many years. How time flies when you enjoy the challenges and fun in the more than 150 Axiata Board meetings I have attended over the years. I hope this article serves as a record of my experience and lessons learnt which future board members could benefit from.

I was with the Royal Dutch Shell Group in the Netherlands when I was invited to join the Board in April 2008. I knew nothing about the telecommunications business, but I believe Axiata wanted me for my experience in Shell to provide oversight on the governance and controls of the business and the financial reporting. It was a very steep learning curve for me.

I still remember the intense discussions we had in 2009 to choose the new name. When "Axiata" was proposed, I was probably the only one in the room who was not very keen on the name, as I thought it had no meaning and it sounded like an insurance company. How wrong I was! I am glad I was overruled, and "Axiata" has turned out to be a great name, a brand known across Asia. I was then, and even now, quite useless in branding!

Getting the right talent was always a challenge. From day one, Tan Sri Jamal has always been passionate about talent development and believed in recruiting good, top-notch talent, including recruiting experienced international talent. The Axiata Young Talent Programme (AYTP) is a perfect example that still stands out today as one of its kind in the structured identification and development of young talent in Asia. I am very proud of what Axiata has achieved in talent management, providing an exemplary model for other companies to follow.

In my first few months, I noticed that the then Group CFO was almost 100% preoccupied with M&A issues. Tan Sri Jamal very quickly supported my request to recruit a good Controller who would be able to pay attention to Financial Reporting, Governance and Controls. We brought in Yap Wai Yip, a very experienced ex-IBM Controller. My life was suddenly much easier.

In the early days, Axiata grew very fast. When we first started, Axiata's Profit After Tax (PAT) was just under RM500 million. We grew very quickly to just under RM2.9 billion in four years. Our Chairman then, Tan Sri Azman, always reminded us not to be complacent when times are good. He insisted on us addressing the "What are the 10 things that could go wrong?" and to prepare for hard times to hit. Dialog and XL both went through great profits only to see significant falls into losses.

The Celcom example was the most spectacular case. Celcom had 32 continuous quarters of revenue growth. EBITDA and profit were also growing, with plenty of cashflow. Fantastic business, in those "go-go" days. Then we had to change our lagging and about-to-be-obsolete IT (BSS) system. The Board was constantly appraised of the project progress against the Plan and, just before going live, the project manager presented to the Board the final checkpoint - all ready to go live.

We were within budget, on time and the Board applauded the project manager and her team. Little did we know that on the cut-over to the live system, we would start seeing problems when we had to deal with high-volume transactions which were not properly assessed in the user acceptance tests.

To register a new SIM card took up to four hours, when previously it had taken less than two minutes.

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Our customers moved to our competitors. Worst of all, thousands of dealers around the country stopped promoting our Celcom SIM cards. We lost over 6,000 dealers during this period. Our daily top-ups fell from a high of RM11 million a day to less than about RM7 million a day, and we incurred a drop of about 40% in pre-paid sales.

How did we allow this to happen? More importantly, as Chairman of the Audit Committee, why didn't I see this coming and prevent it from happening?

The most important lesson I learnt from this exercise was that the management and the Audit Committee must encourage staff not to hide bad news. It is important to create a safe atmosphere so that staff do not feel afraid to report bad news quickly, not after we have had lost 40% of our sales.

Second lesson: "Never underestimate the difficulties of changing a major IT system in a company". A huge IT system change-out in a company should be treated like a heart transplant. Put your best guys in the project, not just from IT but from the business - whose sales will suffer if the system is not implemented well.

We also have had some very exciting times and intense discussions in the Board on M&A. On some of them we got badly burnt and I still carry the scars. Discussing the M&A proposals took up almost half our time in the boards. Often, I felt like I was in an MBA class learning from the guru, the professor Tan Sri Azman, who reminded us how to do a proper valuation, and about execution risks and political risks.

Some lessons from M&A: Never trust a "handshake" agreement. Always insist on a contractual agreement. I remember sitting with Tan Sri Jamal in front of a country's highest authorities, who shook our hands and offered us their strong assurance on an issue. But they never fulfilled their promise.

If a deal is too good to be true, be very careful. Always allow for more things to go wrong than expected. Avoid giving "options" in an M&A deal, if possible. If it is advantageous to offer an option, give it with caution and know the full financial and (especially) accounting impact that will arise from the option. In the case of a tower acquisition in one country, the seller was allowed an option to put his shares in Axiata at X times EBITDA. The business did very well, and every quarter, when the EBITDA grew, the increase in the valuation went straight as an accounting loss to Profit/Loss - a very painful result.

The Audit Committee must insist on seeing the full accounting impact of an M&A deal before the deal is proposed to the Board for approval; e.g. impact on Balance Sheet, P&L and ROIC. Always have an exit strategy and stick to the strategy throughout the deal. Never be sentimental about an asset. In the "Idea" case, we got out two years too late.

Our Capex Intensity (i.e. Capital expenditure divided by Revenue) hit around 30% for some of our operating companies. This means that if you do not achieve double-digit revenue growth (over 10%) in a year, your PAT will reduce significantly as you will be hit with higher depreciation.

This reminds me of the advice given by Oprah Winfrey on buying a new dress. "If you buy one new dress, you must throw out one old dress from your wardrobe," she said. "Otherwise, your wardrobe will overflow and you will have no more room to move."

The same thing applies in business. Celcom has about 11,000 towers vs 10,000 in Maxis, but Maxis' revenue is 30% higher. We keep building new towers and we never review towers which support very little traffic to shut them down - hence our operating costs keep going up. I am so pleased to see that finally Celcom has now identified some towers to shut down, with probably zero impact on revenue.

Axiata in its early days adopted a "light touch approach", allowing operating companies the freedom to design and build their own systems and processes which, considering the resources in the Centre at that time, was the right strategy. Partly as a result of this, large operating companies would never adopt a best practice designed and working effectively in a smaller operating unit. Basically, for them, if it is "not invented here", it is not good enough.

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This sharing is also a big driver in reducing our operating costs, something every company must address in view of the current trend of flat or negative revenue growth. Now I am glad to see more top-down approaches being pushed by the Centre into operating companies. In 2019, I am glad all operating companies are urged to adopt "operational excellence", prioritising delivering free cash flow ("Cash is king and operational excellence is queen.").