

Inspiration on the Balance Sheet



As CFO and Head of Talent Engagement for City Telecom, NiQ Lai has found a passion for developing people can drive business success without forgetting the bottom line.

by **Sebastian Bitticks**

City Telecom (CTI) (which launched and operates Hong Kong Broadband Network) has their future executives all lined up. They have just hired them ten years early. “We expect to lose money on them for the first few years.” NiQ Lai, CTI’s Chief Financial Officer (CFO) and Head of Talent Engagement says agreeably. “But we expect to make a lot of money on them in the back-end.” It is a bold statement, considering that both of them are seated across from him in the company’s cool blue boardroom. This is their fourth time joining an interview with

the press, explains Kiana Shek – who as the first hire into 2011’s programme has one month’s experience on her colleague, Mingo Tsang.

Mr Lai offers no explanation for their attendance. Instead, throughout the interview he hands off a few questions, and prompts them to answer questions of his own. He is gracious with them, and not a little paternal. He is also quite demanding. As this year’s intake into the company’s CXO¹ of the Future Programme, the two are expected to hold their own with the Chief Executive Officer (CEO) of today. Alongside Mr

Lai, the two have rubbed shoulders with the city’s business elites at the Kellogg-HKUST Executive Impact Panel in July and Goldman Sachs’s Corporate Investor Day in May.

Of course there is a risk of their taking CTI’s training and leaving. But then, there is no guarantee of a job at the end of their 18-month rotation, either. “At the end of the 18 months, we fire them. Then they have to get rehired. If after 18 months they do not prove their worth, then no department will hire them – we can hire experienced people for less than their current package of HK\$36,000

per month.” CTI has benchmarked their programme not to the overall market, but to the future potential of the two – that means for the same salary, CTI could find someone with five years of experience. Surprising numbers, particularly coming from a CFO. But Mr Lai is confident. “If they become what we aspire for them to become, this will actually be very cheap. In ten years’ time, ideally people will look at us and say: ‘You have fantastic management. How did you get there?’ And we will say that we started ten years ago.”

From the balance sheet to talent management

CTI is a company founded on the long view. Back in 2000, when they began building from ground-up what would become Hong Kong’s largest fibre optics network, there has been no expectation for short-term gains. Instead, the company incurred negative free cash flow for first seven years. Then, in 2007, with a technological advantage that allowed them to offer much faster connections at a lower rate than the established players, the company grew quickly. Since then, CTI has overtaken both Hutchison and i-Cable to rank second in broadband services market share, larger than those two nearest competitors combined, and chasing after the incumbent PCCW. Return on capital went from 3 per cent to around 19 per cent today. In four years, their share price shot up by five times its value in 2007.

“Those seven years of loss leadership gives us now a five-year competitive advantage in hardware. We still have a few good years left of this advantage,” says Mr Lai, but it will not last. Eventually technology spreads to all players in a field. Sooner or later, all broadband providers in Hong Kong will be able to offer consumers the same

speeds for the same prices and with the same access.

This does not trouble Mr Lai. “The way we see it, United Airlines and Singapore Airlines both fly the same airplanes, and yet for vastly different profitability. The difference is people. Outsiders will look at our company and say we are high-tech. But that is not true. We are a people company – we spend more money on salaries than we do on our network. If we have efficiency gains to make, it comes from the people.” Innovation – and future success, says Mr Lai – also depend on a company’s people.

This makes developing and nurturing talent the cornerstone of CTI’s next long-term strategy, and that is not limited to their next leaders and the CXO of the Future Programme. Firstly, when CTI’s management team attends events like those at Kellogg-HKUST or Goldman Sachs, existing talent within the company are brought along – not just their management trainees. The company also runs what they call Power Bar, a practice where directors and managers from one department are invited to ‘guest’ manage for three to six months in a different department. “We have had our HR director go over to marketing; we have had people in network completely switch teams.” This mobility, says Mr Lai, is critical if CTI’s managers are to remain passionate about their jobs and clear about the value they bring. “Commercially no one will hire an HR director to fill a marketing director’s role. But inside our company, we can offer that experience. At the end of the three to six months, if they want to stay and can justify their worth, they can stay.” Most, he says, return to their original job, but with new insights and a greater passion for their role.

Then there is what CTI calls Next Station University, and education

initiative aimed at front-line staff. CTI employs thousands of low-education staff – sales people, installation technicians, and telemarketers. According to Mr Lai, many have only high-school degrees. The company has responded by inviting accredited lecturers from the University of Wales to hold classes in the company’s headquarters and to help their staff work towards fully accredited business degrees. “It costs HK\$100,000 a head for this programme, and we sponsor 80-90 per cent of that. We do this because it can inspire a hundred other staff members to do more than they thought they were capable of.”

There are about fifty people currently enrolled in the programme. “We hope in five or ten years’ time, they can become supervisors of fifty people. Even if we lost \$50,000 to train you, but you make \$10,000 extra [by motivating and effectively managing] the staff below you – and you are responsible for fifty staff...” Mr Lai trails off, letting the value calculations go unsaid. For the record, that is a return of five times the initial training expense.

A CFO for HR?

Figures, estimates, values and savings punctuate the conversation. Mr Lai got his start in finance – for almost a decade he worked at Credit Suisse helping raise money for Asian telecoms. Still, CFOs rarely involve themselves so intimately in a company’s training, engagement, and succession programmes, much less leading them. A major step, Mr Lai admits, was his Kellogg-HKUST eMBA. “Before that, I would go into a board meeting and see everything as black and white. All I saw was finance.” The larger business training helped him develop the vocabulary and perspective to see in full spectrum.

“The missing gap for traditional HR



CTI's Management Techniques

CTI has more than a few programmes to keep their talent engaged and performing. Here's what Mr Lai says about some of them:

On the 5 per cent rule that sees the bottom 5 per cent of performers terminated every year: "We cannot be 100 per cent certain we cut the bottom 5 per cent. I am, though, 100 per cent certain that of the 100 people I hire every year, not 100 per cent are perfect fits. I have an error margin in my intake. Without an exit, that error rate is going to accumulate over time. It is like not exercising: you just get fat over time."

On CTI's decision to split Hong Kong into five regions, which are run with 'mini-CEOs', instead of traditional business silos: "Just saying you want people to take ownership is easy. If you follow the old way, they will only take ownership for their function, say, network development, customer service, etc. But they are not capable of taking ownership of customer engagement, because they do not have the authority. There is a mismatch of objectives and authority. But here, with our five regions structure, they can be responsible for the whole vertical."

On the wide use of key performance index instead of stock options: "We do not use stock options for everyone – I always felt they were random variables, which is being more influenced by stock market than actual personal contributions. Instead we structure compensation to create ownership. Commission is based on the areas they directly can control. For example, our IT staff are not just on a fixed salary, they are also linked to performance – performance in this case being the network reliability."

people is that they cannot speak business. They say, 'Can I have such-and-such a budget to reduce staff turnover?' A CEO does not care about turnover directly. CEOs care about productivity or service. And so HR ends up stuck in the back. The biggest frustration I get working with HR traditionalists is that they focus on these HR metrics. That is too back-end driven." If CTI's talent management strategy had been a back-office initiative, says Mr Lai, the company never would have made it this far. "We have far less resources than any of our competitors. Our 'parents' are two entrepreneurs. They do not have billions of dollars behind them. So it is our people that make the difference."

The chance for Mr Lai to fill that role came unexpectedly, when a management board level senior HR professional backed out at the last minute to stay with their current company. "I jumped at the chance. Developing people is something I am passionate about, so I volunteered to keep that HR bench warm for three months [while they restarted the search for a permanent replacement]. Three months have become six years."

It turns out Mr Lai's expectations for the HR team have far more to do with

his personal motivators than his financial background. When asked what he expects from the HR team, but rarely sees, he answers without hesitation: "to inspire our talent base to perform way beyond what they think they are capable of. We are a small company; we have to do things differently. We have to change the rules of the game – we need everyone in our company to ask how they will change the rules for themselves. I expect HR to take leadership in that." **HR**

¹ CXO being shorthand for any member of the executive suite.

Mr NiQ Lai, City Telecom's Chief Financial Officer and Head of Talent Engagement, will speak at the HKIHRM 2011 Annual Conference to be held on 22-23 November 2011 at the Hong Kong Convention and Exhibition Centre. For more information, please visit HKIHRM website at www.hkihrm.org.

