

# Post Office Ltd Senior Management

Risk and Assurance Committee

February 2014

RESTRICTED – PEOPLE & MANAGEMENT

**1** **Summary**

*Advice from the recent Annual Review suggested that the POL team give careful consideration to the continued suitability of Paula Vennells as CEO*

*There is a general consensus that Paula is no longer the right person to lead POL but justification is anecdotal*

*This short paper aims to examine the options available to ShEx*

▪ **Key challenges facing POL**

- POL has recently secured a £640m funding commitment until March 2018, with the expectation that this moves the company to a sustainable footing, completes the modernisation of the network and prepares POL for possible mutualisation.
- The company is reliant on winning and retaining clients, and successfully negotiating with RM in 2016 is essential for the future

▪ **The importance of the CEO**

- POL has a turnover of c. £1bn, operates the largest retail network in the UK, is constantly in the public and political eye, and must operate competitively and commercially under public ownership, while meeting uneconomic Government objectives.

▪ **What has been achieved under Paula's leadership**

- The company has successfully separated from RM, established a Board, made some progress towards mutualisation, maintained network compliance with Govt objectives, started network modernisation programmes, and grown revenues.

▪ **Why is Paula's position under review?**

- However, the 2010 plan, which admittedly was not hers failed to deliver the expected revenue growth, and the Network Transformation has required political awkward revisions to remain deliverable.
- Paula has not shown an understanding of political considerations (i.e. presentation of plan to Ministers) or of the detail of the plan, and she has been unable to work with personalities that provide robust challenge to her.
- NT will require strong and focused leadership, if POL is to achieve the plan.

**2**

**Considerations and options**

*Paula joined POL from Whitbread in 2007.*

*As Network Director she was responsible for implementing the Network Change Programme.*

*In October 2010 she was appointed Managing Director, succeeding Alan Cook.*

*She became CEO in April 2012 following the separation from RM.*

▪ **Issues to consider**

- Timing *is now the time to change leadership? How long would the process take? Has she been given long enough in charge?*
- What does the process look like *POL would run the appointment process, but within parameters (i.e. pay) set by Govt*
- Who needs to be consulted *SoS appoints the CEO, but the POL Chair and Board would need to be consulted*
- Impact on plan *the new strategic plan has only recently been agreed, how would stakeholders and POL employees react? Does a change of leadership create more of a risk than we are trying to mitigate? Would a new CEO accept the plan?*
- Legal risks *do we have evidence to support our decision if Paula challenges a decision to remove her?*
- Management loyalty *Paula has appointed or outlasted most other Directors. Those who don't fit have been moved on. Would there be a management exodus?*
- Internal candidates *there are no proven internal candidates with a strong track record of delivering a change programme*
- Required skills set *the role requires someone with strong commercial knowledge, experience of implementing a change programme, and a thorough understanding of the way Government operates – a difficult combination*

▪ **Options**

- Retain *maintain the status quo*
- Retain and review in a year *give Paula more time, but be prepared to act if concerns are not addressed*
- Remove *begin taking steps now to replace Paula*
- Senior management restructure *retain Paula, but introduce a COO role to drive delivery at an operational level*

## Retain

*As a former POL Network Director, Paula does have experience of delivering a large network change programme.*

*To the extent that NT has been developed and implemented under her leadership, it can be seen to be her plan.*

*She has demonstrated leadership at times by acting to remove Directors that she has perceived as not being suitable for the role.*

### ▪ Timing and impact on plan

- Removing Paula soon after agreeing the new strategy risks perceptions about Govt support, and could undermine delivery of the plan as stakeholders stop positively engaging with SPMs waiting to see if a new CEO changes strategic direction.
- It is unlikely that a replacement for Paula could be immediately and quietly identified. If plans to replace Paula become public then there will be a likely dip in plan delivery, leaving dual risk.

### ▪ Remuneration

- Paula's base pay has not risen since her appointment in 2010. There is a feeling that her base salary is low in comparison to her peers. Given the difficulty in securing CST approval for CEO remuneration, and given the electoral cycle, there is a risk that we would not be able to appoint an appropriate replacement quickly.

### ▪ Current track record

- Although Paula is not a proven CEO (this is her first CEO role), she has performed adequately, meets most of the desired skills, is relatively inexpensive, and has a knowledge and understanding of the business
- We do not currently have access to Paula's appraisals and currently have limited 'hard' evidence to justify a removal on grounds of failure to perform her duties well enough. She can point to successes such as separation as proof of her suitability.
- Next steps include consulting those close to, but part of, POL – Will Gibson, Susannah Storey (NED) and the Chair.

### • Summary

- The reasons for retaining Paula are largely negatively framed, posited in avoiding the risk of disruption to delivery of the plan – but this reflects the reality of the situation.

**4**

**Retain and review**

*This option would give the ShEx team time to fully assess Paula's performance in light of concerns about her leadership*

*It would enable a scoping exercise to be undertaken and for a succession plan to be fully developed*

*This option could minimise the lead time for a replacement and mitigate the risk of a dip in strategy delivery*

• **Timing**

- It may become more difficult to remove a CEO in the run up to an election as Ministers would be conscious of the political implications. Therefore this option may be constrained by the electoral cycle.
- Alternatively, there may be a greater appetite for making a change after the election, although this would again risk causing a dip in delivery of the strategy as stakeholders wait to see if a new Govt adopts a new strategic direction.

• **Impact on plan**

- This gives Paula time to deliver her plan, and Govt time to prepare for her replacement should she fail to deliver on the plan.
- It should be possible to form an opinion on implementation by the end of Q2 2014/15, recognising this could be too early, but also conscious that time is precious, and a change is likely to be more challenging in the run up to an election.

• **Process**

- Any decision to replace Paula would need to be supported by the POL Chair, Board and key Govt Ministers. Retaining and scrutinising Paula's performance for a defined period allows this important consultation to be undertaken

• **Management loyalty and internal candidates**

- Kevin Gilliland and Chris Day are unlikely to be suitable internal candidates, and owe their positions in part to Paula. Martin George has not yet had time to prove his credentials, but does have a commercial background. Given time he could be a suitable, possibly interim, candidate. Sue Barton has a strong track record both within and without POL.

• **Summary**

- This route puts a review framework in place that should already exist, but there are timing difficulties around the election

**5**

## Remove

*There is a general feeling that Paula is not the optimal person to lead POL to deliver its commercial strategy.*

*Paula has not been able to establish good working relationships with Jo Swinson.*

*She has been unable to retain key staff.*

▪ **Performance as CEO and delivery of strategic plan**

- POL failed to deliver its 2010 strategic plan, and refused to keep Govt properly apprised of developments in the NT programme, requiring difficult revisions in 2013. She has shown a worrying lack of knowledge about the detail of the new plan.
- Paula's people management has caused concern as she appears unable to work with personalities and approaches that differ from hers, and has failed to build relationships with key Directors.
- Paula's performance as CEO has been questioned by the POL Chair, and by members of the Board

▪ **Engagement with Ministers and stakeholders**

- Paula has not developed strong relationships with stakeholders. The scale of change envisaged under the strategic plan requires a visible, dynamic and charismatic leader able to reengage and energise the relationship with stakeholders
- This includes engaging with BIS Ministers. Over the last year Paula has repeatedly over-promised and under-delivered

▪ **Replacement**

- With a new strategic plan in place it could be timely to appoint a CEO with a proven track record in delivering change within organisations. However, it could be difficult to appoint someone to implement a plan they were not involved in designing.

▪ **Summary**

- Paula has failed to perform on a number of key areas. But removal without a clear process in place for appointing a replacement creates greater risks, not least in finding a suitable candidate quickly.

**Senior management restructure**

*Rather than removing Paula, but recognising the need for change, a fourth option sees the introduction of a COO role, with responsibility for day-to-day delivery of the strategic plan*

*Such a move may precipitate Paula's departure on her own volition, with the COO (providing they are a suitable candidate) stepping up*

*There would be relatively little public noise, and manageable stakeholder reaction to this option*

- **Introducing a COO role**

- Assuming sufficient support from the Chair and Board, the Govt could insist on the appointment of a COO to drive delivery of the strategic plan. This person would have operational responsibility, leaving Paula to focus on line management of Directors
- There could be difficulties in appointing a suitable COO on a salary lower than Paula's. Conversely, raising Paula's salary to accommodate a suitable COO could be difficult if perceived as 'rewarding failure'

- **Current management**

- Chris Day (Chief Financial Officer) – general feeling that his performance has been adequate, but not a dynamic personality
- Kevin Gilliland (Network Director) – has worked in POL for 30+ years. Lacks relevant experience to lead POL in a change programme of this nature. Has kept a surprisingly low profile given changes in NT. Likely to be loyal to Paula
- Martin George (Commercial Director) – is unproven in leading an organisation, though his commercial experience is important
- Sue Barton (Strategy Director – currently on sabbatical leave) – has very considerable sector experience, and has proven herself adept at managing difficult stakeholders such as the NFSP and CWU on complex and contentious matters, and is de facto author of the current strategic plan.

- **Summary**

- This is an appealing option as it minimises the risk of adverse publicity and impact on delivery of the plan, while taking appropriate action to ensure the delivery of that plan and therefore Govt objectives is made more likely.
- Challenge is to persuade Paula / POL of the need for this additional role.

**7** **Next steps**

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1. Discreetly consult with those close to POL (Will Gibson, Susannah Storey) ✓
2. Determine what evidence we have that suggests change is required ✓
3. Discuss with Alice Perkins (and possibly other NEDs) ✓
4. Establish ShEx intended view (in consultation with Mark Russell) ✓
5. Seek views and clearance from Ministers
6. Discreetly identify and consider alternative candidates

*To note – risks to be assessed after every step before proceeding*



8

## Conclusion

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- **Heading 2**

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