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Why Harding couldn't hang on at TalkTalk

The telecoms boss insists she was not pushed out. But Charles Dunstone's return to the fray suggests a fresh eye is needed

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Although Dido Harding brought order to TalkTalk, investors were cheered by her departure

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Sir Charles Dunstone had just returned from Christmas in Norfolk when he sat down with the boss of TalkTalk to discuss their plans for the year.

In his west London office, with sweeping views over leafy Notting Hill, it soon became apparent that the broadband provider would be forging ahead without Dido Harding.

Her departure, which was made public last week, did not come as a huge shock to investors — or TalkTalk's rivals. The charismatic Baroness Harding has run TalkTalk since 2010 but her final two years at the helm have been marked by a high-profile cyber-attack and a plunge in the share price.

What did come as a surprise was her replacement. The billionaire Carphone Warehouse co-founder announced he was jumping back into the fray, moving from non-executive chairman to executive chairman.

Dunstone, 52, has plenty riding on his unlikely resurrection. His 31% stake in TalkTalk has plummeted by more than £500m since 2015.

His goal, when he places his hand back on the tiller in May, will be to revive TalkTalk's fortunes — and its sagging stock price. From a high of 403p in the summer of 2015, the shares have plunged by about 60% to 161p, valuing his holding at £480m.

Dunstone and Harding, whose grandfather commanded the Desert Rats during the Second World War, insist she is leaving at a time of her choosing.

Harding, 49, who turned TalkTalk into a household name through its sponsorship of TV talent show The X Factor, said she wanted to “focus more on my activities in public service”. It is thought that Harding, who was ennobled by David Cameron in 2014, will look for a full-time role in the public or not-for-profit sector.

She will receive a generous pay-off when she steps down, however, pocketing her £550,000 salary in full for the coming financial year, even though she will have been in place for only two months of it.

In their unsentimental fashion, investors passed their own judgment on Harding's departure: TalkTalk's shares jumped by 8%. So why the sense of jubilation on the stock market at the departure of a personable leader — and arguably Britain's most high-profile female executive?

In large measure, it is an expression of hope that Dunstone can find TalkTalk's mojo again after the 2015 cyber- attack. It has also suffered a decline in its share of the broadband market.

Harding last week dismissed the breach of TalkTalk's IT system by a 17-year-old as "ancient history". Yet it cost the company about £70m in lost revenues and exceptional charges, with about 95,000 customers cancelling their contracts.

Following the hack, Harding, who between 2013 and 2016 received £16.2m in pay and bonuses, donated her £220,000 bonus to charity.

Much more damaging than the financial hit was the reputational blow. For many investors and customers, the debacle called into question the strength of internal controls and, by extension, Harding's oversight of the company.

Many of TalkTalk's weaknesses stem from its haphazard genesis. Dunstone built up the company by offering "free" broadband to Carphone Warehouse customers in the mid-2000s and then by snapping up a raft of rivals, including Tiscali and AOL. TalkTalk grew rapidly but was left with a tangle of back office and computer systems that proved difficult to bring together.



Rescue mission: TalkTalk founder Sir Charles Dunstone

On her desk at TalkTalk's west London head office, Harding keeps two wooden spoons "awarded" to the company for having the worst customer service record of any company in Britain.

The accolades spurred her to overhaul its call centre operations, with some success: data from watchdog Ofcom suggests BT now tops the list of Britain's most reviled broadband provider

"When Dido took over, it was like a plate of spaghetti. By and large, she has done a good job establishing some order," said one source. With the obvious exception of its cyber-defences, however.

After quitting TalkTalk, she will have more time for horse racing. Harding, who is 5ft 2in, is a keen amateur jockey. In equestrian circles, she is best known for splashing out £7,000 on an unheralded Irish point-to-point racer, Cool Dawn, which ended up winning the Cheltenham Gold Cup.

She hands over the chief executive's mantle to Tristia Harrison, 44, the head of TalkTalk's consumer arm, who has worked at TalkTalk since 2010. Before that, she was an executive at Carphone Warehouse. However, there is little doubt who will be pulling the strings at TalkTalk. Dunstone is standing down as chairman of the mobile phone and electronics retailer to devote all of his energy to reinvigorating the broadband provider.

His return to the coalface is intriguing given his widening business interests. Over recent years, Dunstone has become a prolific investor in tech start-ups, including online estate agent HouseSimple. He owns a large slice of the fast-growing British arm of Five Guys, the high-end US burger chain, and is chairman of Sir Ben Ainslie's bid to win the America's Cup.

The big question is how he will lead the fightback against much larger rivals, such as Sky, BT and Virgin Media. Since it was spun out of Carphone Warehouse into a separately listed company in 2010, TalkTalk's share of the broadband market has slipped from 22% to 16%, according to research from Enders Analysis. And some analysts argue it has become much too reliant on providing white label services for the likes of the Post Office. These customers are far less profitable than selling broadband direct to consumers.

The dynamics of the broadband market have changed radically over recent years. Demand is slowing, and customers are also making far fewer calls from their landline — a trend that has seen all broadband providers raise their line rental charges. Some analysts argue that, in the process, TalkTalk's no-frills service is not as cheap as it once was compared with its rivals.

Dunstone will, of course, want to boost TalkTalk's profit margins, but he has made it clear that growing its customer base will be his priority. He rakes in about £40m a year through TalkTalk's dividend. The tycoon may have to accept a less generous return if TalkTalk is to regain its X Factor.