Royal Bank of Scotland

‘Royal Bank of Scotland is one of the top three banks in Europe. They are just very good at running businesses, with a high degree entrepreneurial flair.’


Royal Bank of Scotland (RBS) is one of the oldest banks in the UK. It was founded in 1727 in Edinburgh, by Royal Charter, as the Royal Bank and opened its first branch in Glasgow in 1783. It developed a network of banks across Scotland in the nineteenth century but it was not until 1874 that it opened its first branch office in London. From the 1920s it grew by acquisition, swallowing Drummonds, William Deacon’s Bank, Glyn, Mills and Co., and Child & Co., then merging with Edinburgh based National Commercial Bank of Scotland, which itself comprised the National Bank of Scotland and Commercial Bank of Scotland. At this stage it dominated 40% of Scotland’s Banking business.

In 1985 it merged with William & Glyn to give it a presence in England and ownership of the banker to the Queen, Coutts. This was the first glimpse of the bank’s entrepreneurial flair. It also started by set up Direct Line (the direct car insurance company) which went on quickly to become one of the dominant forces in direct insurance. Realising it was very dependent on the UK market, it acquired Citizens Financial Group of Rhode Island, a small savings bank in the USA. It also started to refocus on its core business of retail banking and started on a round of cost cutting. It realised that retail banking was becoming a commodity and, to compete on price, it had to achieve economies of scale that were just not available to it on a conventional banking model. Its answer in 1997 was to set up the UK’s first on-line banking service. Not content with this it realised that other organisations were probably better at marketing banking services than the banks themselves and joined forces with a number of well know brands such as Tesco, the supermarket, and Virgin One to offer on-line banking. RBS did the ‘back-office’ operations, all the time driving down costs because of economies of scale. However, it also chose not to enter the high street price war being waged by its bigger rival. In 2000 RBS bought its far bigger rival, NatWest (which included Ulster Bank), in what is the biggest take-over in British banking history. Whereas RBS had just 650 branches, NatWest had 1650 and Ulster Bank a further 228 branches. As a result RBS underwent a large round of redundancies to further cut back its cost base - a realisation of what the core strategy was for this part of the business.

Since 2000 the bank has been continuing its policy of organic growth and opportunistic but tactical acquisitions. It has grown the wholesale side of its banking operations - corporate lending, derivatives, foreign exchange and leasing. It is now the biggest banker in the UK in small business and corporate banking. Its US bank, Citizens, has also acquired the Mellon bank’s regional retail franchise, Medford Bancorp and Commonwealth Bancorp, increasing its geographical coverage in New England and making it the twentieth largest US bank measured by deposits. It has also purchased Santader Direkt, a Frankfurt based credit card company in what is thought to be its first steps into mainland Europe. More recently it purchased Churchill Insurance, a direct competitor to Direct Line, and now intends to merge it with Direct Line. It is also thought to be interested in taking over former Building Societies, in particular Abbey National, so as to give it more exposure to mortgage (house lending) business as well as a savings bank.
Today RBS is an international bank, employing some 112,000 people worldwide. In 2002 RBS made pre-tax profits of £4.7 billion - five years earlier they had been just £1 billion. Its entrepreneurial executive Chairman is Sir George Mathewson. He joined the bank after being head of the Scottish Development Agency and has been accused of running the bank like a venture capital company. His Chief Executive, Fred Goodwin, is one of the youngest among the FTSE 100 and also came from outside the company.

Questions:
1. What are the main elements of the Royal Bank of Scotland’s strategy?
2. Why have they used acquisition so much?
3. Explain each acquisition and the reasons behind it.
4. Why is scale of operation so important to it? Has this driven some elements of strategy?
5. Compare and contrast the strategies of Royal Bank of Scotland with those of Standard and Chartered Bank (next page). Are there any market-based explanations for the different approaches?
6. In 2003 Standard Chartered became the only UK-listed bank to be part of the consortium that aims to help Iraq to rebuild. Why might the bank have entered this risky market?
Standard Chartered

Standard Chartered operates in over 50 countries and has 29,000 employees. It was formed in 1969 from the merger of two banks. The Chartered Bank, was founded by a Scot, James Wilson, in 1853 to finance trade across the British Empire. The Standard Bank was also founded by a Scot, John Paterson, in Port Elizabeth, South Africa in 1863. But in November 2001 the Chief Executive, Rana Talwar was ousted from office after a dispute with the Chairman based upon his failing strategy for expansion. This involved an aggressive acquisition strategy that required the bank to raise increasing amounts of money from investors to buy up banks that were still reeling from the effects of the Asian currency crisis and was not yielding any profit growth. Indeed its share price was so low that there were rumours of take-over.

The new Chief Executive, Mervyn Davies, reversed this strategy, pulling out of planned acquisitions and paying back money to shareholders. He returned to the basics of good strategy for an established business. The new strategy is one of internal growth - expanding by offering consumer services in countries where people are getting richer such as India and China. At the same time he acknowledged that customers are very price sensitive and he therefore streamlined the back-office operations and shifted them to Channai in India and Kuala Lumpur in Malaysia so as to minimise costs. In fact this has been so successful that these operations have become models for other banks thinking of transferring back-office operations offshore. The third leg of the strategy was to cut bad debts although this helped by the creation of credit rating agencies in its major market, Hong Kong, in the wake of a ballooning number of personal bankruptcies. Hong Kong remains the bank’s biggest market, generating a third of its revenues. Other key areas include Singapore, Malaysia and Africa. Returning to the basics of business strategy helped turn around the fortunes of Standard Chartered Bank.

By 2003 the Standard and Chartered was generally thought to have turned the corner after a two year period of extremely rapid change. It is listed on the Hong Kong stock exchange and in London, where it is in the top 25 firms measured by capitalisation.