

# X234/701

---

NATIONAL  
QUALIFICATIONS  
2008

FRIDAY, 16 MAY  
1.00 PM – 3.45 PM

BUSINESS  
MANAGEMENT  
ADVANCED HIGHER

100 marks are allocated to this paper.

Candidates should spend fifteen minutes reading the case study material and the questions.

Answer **all** questions in Section One (50 marks).

Answer **two** questions in Section Two (50 marks).

**Note:** The questions are printed on a separate sheet inserted inside the front cover of this paper.



## **THE ROYAL BANK OF SCOTLAND GROUP**

### ***Background Information***

The Royal Bank of Scotland Group [RBS] is based in Edinburgh. It is the second biggest bank in the UK and, measured by 2004 revenues, the sixth largest in the world. In 2005 42% of its profits came from its international operations. It employs over 140,000 people across the world, almost 17,000 of whom are in Scotland. Its own figures suggest that it is indirectly responsible for about 45,000 jobs in Scotland.

RBS offers a wide range of financial products and services. These include personal banking services, credit cards, insurance and other financial products such as mortgages aimed at personal customers. It provides services such as loans and financial advice to small businesses and corporate financial services for large businesses.

Exhibit 1 gives further details of the company's operational divisions.

In recent years RBS has successfully pursued an ambitious and innovative expansion strategy. It also has a policy to recruit the best available people and to create working conditions which will enable staff to give of their best and secure their commitment to the organisation. It believes it has a responsibility to run its businesses successfully, sustainably and with integrity. Its Chief Executive, Sir Fred Goodwin, wants it to be a global benchmark against which other business organisations are judged.

RBS has used what it calls a "multi-brand multi-channel" strategy. This means developing a range of brand names for its products and delivering them to customers in a number of different ways.

Exhibit 2 gives some examples of RBS's brand names, its products and channels it uses.

### ***Expansion Strategy: Organic Growth and Acquisitions***

RBS has expanded and diversified using both organic growth and acquisitions. One example of organic growth is Direct Line, set up in 1985, which was the first company to sell motor insurance direct to customers. RBS launched the UK's first internet banking service in 1997. It also pioneered partnerships with organisations such as Tesco and Virgin which have enabled financial products like mortgages to be sold through outlets other than banks.

Acquisition and integration of other companies have also been important to its success. In 1988 it entered the US market by paying £235m for a small provincial bank, Citizens Bank of Rhode Island, which is now the seventh largest bank in the USA. In 2000 it bought the English based NatWest Bank for £21bn.

Exhibit 3 gives some more examples of acquisitions and other growth made by RBS.

Exhibit 4 gives some financial and other information on the success of RBS.

### ***Investment in the Bank of China***

In August 2005 RBS entered a strategic investment and co-operation agreement with the state owned Bank of China, the second biggest bank in China. As part of this agreement, it paid £900m for a 5% share in the Bank of China. RBS financed the deal by selling its 2.2% shareholding in the Spanish bank, Bank of Santander. Essentially, therefore, RBS swapped one shareholding for another but added a partnership agreement.

China produces 13% of world output and is the world's fastest growing market for financial services. The Chinese government is anxious to bring in foreign expertise to the banking sector and Bank of China was said to be eager to learn from RBS.

RBS was following a pattern set by its rivals in the USA and Europe, many of which also have stakes of up to 19.9% in Chinese banks. Chinese government regulations limit total overseas shareholdings in a Chinese bank to 25% of total shares and no single foreign institution may own more than 20%.

Although Sir Fred Goodwin argued that the deal was relatively low risk, commentators in the financial press were not so sure. They pointed out that many Chinese banks, including the Bank of China, have a history of fraud, corruption and bad debt. Also, RBS, unlike some other banks such as HSBC, has limited experience of China and failure in China could jeopardise RBS's reputation for success. Some of the fears were reduced because RBS took a smaller stake than had been anticipated.

In August 2006 RBS announced that a joint credit card venture with Bank of China had issued 450,000 cards. Earlier in 2006 the Bank of China was floated on the stock exchange. The resulting share price meant that RBS's 5% share was worth the equivalent of £2.6bn, over 2½ times the original investment.

### ***New Corporate Headquarters at Gogarburn***

One consequence of the successful growth that RBS has achieved—and its commitment to Scotland—is the company's new global headquarters in a large parkland site at Gogarburn on the outskirts of Edinburgh. Officially opened in September 2005, the facility cost over £350m to build.

It is a campus style development with the main office areas, or “business houses”, built around a “street” which includes among other things a Tesco Express, 2 Starbucks, a hairdresser and a dry cleaners. The campus also has a staff canteen, a fitness centre, a swimming pool and a crèche. It also contains a Business School which, in conjunction with the Harvard Business School in the USA, offers courses for senior management.

The new headquarters has been designed to provide a high quality working environment and to facilitate the best possible work-life balance for the people who work there. Employees were consulted about every aspect of the new building through focus groups, opinion polls and websites in order to ensure that the new facility met their needs.

**[Turn over**

## ***Employee Relations***

RBS sees the new facility as part of its investment in its staff and believes that it will help the company to achieve its aim of getting the best out of its employees. It has also set up several Human Resource initiatives to help achieve this aim.

One example is the “Group Work-Out” programme. This involves bringing together groups of employees to work on specific projects to develop and implement ways to improve work effectiveness. It is based on the idea that those closest to things know them best. Groups involve people from all levels of the business and, where necessary, from different divisions.

RBS has a profit sharing scheme under which employees are given a bonus directly related to the Group’s annual profit performance. In recent years, this has resulted in an annual payment equivalent to 10% of salary.

It places considerable emphasis on training and development. In 2005, for example, RBS introduced a group wide programme to develop leadership skills. Known as “The Leadership Journey”, it enables employees to understand how to become a successful leader.

## ***Community Investment***

In 2005 RBS invested £56m in community projects making it the second biggest corporate donor. Its investment, however, involves more than giving money. RBS aims to generate long term partnerships with charities and community groups, employees and other stakeholders.

One example is the “Money Makes Money” scheme developed in association with the Prince’s Trust, a charity which helps young people, particularly from disadvantaged backgrounds, to develop their social and enterprise skills.

Up to 15 RBS employees form a project team which is given £3,000 to get started and is tasked with organising an event which will raise £20,000 for the Prince’s Trust within 6–8 months. The challenge includes developing a business plan for the activity and marketing it. It involves project management skills and networking with local businesses. Over 1,600 RBS employees have been involved in “Money Makes Money” and other similar projects.

[The above information is taken from RBS Annual Reports 2003–2005 and from RBS Corporate Responsibility Report 2005. Additional material came from company websites at [www.rbs.com](http://www.rbs.com), [www.rbs.co.uk](http://www.rbs.co.uk), from news websites, particularly [www.bbc.co.uk](http://www.bbc.co.uk) and <http://business.scotsman.com>, and from [www.princes-trust.org.uk](http://www.princes-trust.org.uk).

**NB** Unless stated otherwise, the above, and the accompanying exhibits, are current as at 1 September 2006 and refer to the situation at that date.

## Exhibit 1

### *Operations of The Royal Bank of Scotland plc*

The Royal Bank of Scotland is organised into 7 main divisions, each of which has responsibility for a distinct aspect of the company's operations. Two divisions, Corporate Markets and Retail Markets, are split into separate businesses. The main divisions are listed below.

- **Corporate Markets** provides financial services such as loans and other borrowing facilities to large and medium sized businesses and to financial institutions throughout the world. It is split into:
  - **UK Corporate Banking**, which deals with UK customers;
  - **Global Banking and Markets**, which deals with international customers.
- **Retail Markets** was established in 2005 to co-ordinate the work of 3 separate businesses:
  - **Retail Banking**—banking and related financial services to personal and small business customers in the UK through branches, cash machines and the Internet;
  - **Direct Channels**—credit card and other financial products in the UK and Europe;
  - **Wealth Management**—private banking and investment services to rich clients throughout the world.
- **Ulster Bank** provides retail banking services to personal and small business customers in Ireland.
- **Citizens** provides banking and related financial services, including credit cards, to personal and business customers in the United States.
- **RBS Insurance** provides insurance products over the telephone and the Internet for personal and business customers in the UK. Through its International Division it sells motor insurance in France, Spain and Germany.
- **Manufacturing** is referred to as the “engine room” of the company and provides the technology and support services that underpin its operations. These include processing cheques and managing accounts, which until the 1990s had been done by branches. It also manages cash machines and internet banking as well as being responsible for purchasing and property management.
- **The Centre** includes the functions of finance, human resources and communications which operate across the whole group.

**[Turn over**

## Exhibit 2

### *Some Examples of Brands and Channels Developed by RBS*

Brand	Examples of Activities	Channel(s)	Location
Royal Bank of Scotland NatWest	<ul style="list-style-type: none"><li>banking services such as accounts, loans, mortgages to personal customers</li><li>loans and overdrafts for small business customers</li></ul>	bank branches telephone internet	UK
Tesco Personal Finance	<ul style="list-style-type: none"><li>financial services such as loans, mortgages</li></ul>	supermarkets	UK, Europe
MINT	<ul style="list-style-type: none"><li>issuing credit cards</li><li>on-line loans</li><li>on-line credit cards</li></ul>	telephone internet	UK, Europe
Direct Line	<ul style="list-style-type: none"><li>car insurance</li></ul>	telephone internet	UK, Europe
First Active	<ul style="list-style-type: none"><li>banking services such as accounts, loans, mortgages to personal customers</li><li>loans and overdrafts for small business customers</li></ul>	bank branches	all of Ireland
Citizens Bank	<ul style="list-style-type: none"><li>banking and other financial services for personal and business customers</li></ul>	bank branches telephone internet supermarkets	USA

RBS has a strong track record of market leadership and of gaining awards for customer service. The following are a few examples.

- Largest branch and cash machine network in the UK [2003–2005]
- Leading bank for small business customers [2005]
- Royal Bank of Scotland was the top rated bank in the UK for customer satisfaction [2005]
- Royal Bank of Scotland was voted the best bank for service to small business customers in Scotland [August 2005]
- RBS Insurance is the market leader for car insurance in the UK and second in the market for home insurance and for travel insurance
- Direct Line won awards for Car Insurer of the Year and for being the best on-line motor insurance company [2005]
- Royal Bank of Scotland won the award for Business of the Year in the National Business Awards for Scotland [2004]

### **Exhibit 3**

#### ***Some Examples of Acquisitions and Other Growth by RBS***

##### ***UK***

RBS Insurance acquired Churchill Insurance in 2003.

RBS successfully launched MINT, a new credit card brand, in 2004.

##### ***Europe***

Bibit, a Dutch internet payment company, was purchased in 2003. The acquisition enabled RBS to combine its activities with WorldPay, its own internet payment specialist. RBS is now the leading internet payment company in the EU.

RBS's expansion in Europe has been helped by the fact that Tesco has been setting up new stores in Europe. This means that Tesco Personal Finance is now available to customers in continental Europe.

##### ***USA***

After its take-over of Citizens Bank in 1988, RBS has made over 20 further acquisitions in the USA. In 2004 it paid £6bn for Charter One Financial, which increased its personal customer base from 2m to 4.4m.

Citizens has partnerships with retailers such as Walmart, America's largest retailer.

Between 2000 and 2005, RBS spent over £32bn on acquisitions.

**[Turn over**

## Exhibit 4

### Financial and Other Information on RBS

#### 1. Selected financial and other data: 2001–2005

	2005	2004	2003	2002	2001
Group turnover (£bn)	25.6	22.8	19.3	17.0	14.6
Operating profit (£bn)	8.3	8.1	7.1	6.5	5.8
Dividend per share (pence)	72.5	58.0	50.3	43.7	38.0

A further indicator that the strategy followed by RBS has been successful is that, between 1992 and 2005, profits rose from £0.3bn to £8.3bn.

#### 2. Income, Operating Profit and Employees by Region: 2005

	Income (£bn)	Operating profit (£bn)	Employees (full time equivalent)
UK	18.8	4.8	103,000
Europe	2.0	1.1	7,000
US	4.6	2.3	26,000
Asia Pacific	0.2	0.1	1,000
<b>TOTAL</b>	<b>25.6</b>	<b>8.3</b>	<b>137,000</b>

**NB** The figures for employees give the number of full-time equivalent employees. RBS actually employs more people than this because not all employees work full time.

The above shows the relative importance of the UK in activities of RBS. It also shows how overseas expansion has been concentrated in the USA.

[END OF CASE STUDY]



**QUESTIONS**

**You should spend fifteen minutes reading through the case study material and the questions.**

*You should note that, although the following questions are based on the case study material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.*

**SECTION ONE**

**Answer ALL of questions 1–7.**

- |   |             |
|---|-------------|
| 1. Assess the benefits to Scotland as the home country of RBS.  | 6           |
| 2. Discuss the advantages and disadvantages for RBS of its decision to invest in China.   | 8           |
| 3. Explain how RBS's approach to employee relations may help to increase motivation of its employees.   | 9           |
| 4. With reference to Exhibit 1 discuss how the different divisions of RBS help it to meet customer needs.   | 6           |
| 5. Evaluate the benefits to RBS of the Money Makes Money scheme.  | 8           |
| 6. Explain why RBS has adopted a "multi-brand multi-channel strategy".  | 5           |
| 7. RBS has expanded by means of organic growth, joint ventures and acquisitions of other firms. Analyse the benefits for RBS of this combination of approaches. | 8           |
|   | <b>(50)</b> |

**[Turn over for SECTION TWO**

## SECTION TWO

Answer any TWO of the following questions.

*You may illustrate your answers to questions in this section with examples from RBS or from other firms with which you are familiar.*

8. (a) Since 2000 several new members, such as Poland, have joined the European Union. Discuss ways in which EU enlargement may affect UK businesses. **14**
- (b) Personal effectiveness is vital to a manager's success. Explore ways in which poor time management might reduce the effectiveness of a manager. **11**  
**(25)**
9. (a) Resistance to change is a common problem in organisations. Analyse the reasons for this and ways in which managers may overcome it. **13**
- (b) Discuss the benefits and challenges e-commerce might bring to retailers and manufacturers. **12**  
**(25)**
10. (a) Teamwork is increasingly important in modern business. Analyse factors that can help teams to become effective. **11**
- (b) Explain how any 2 of the following might affect a business.  
  - Market Research Techniques
  - Consumer Protection Legislation
  - Management by Objectives
  - Human Resource Planning**14**  
**(25)**
11. (a) In 2006 there was some concern about whether the Body Shop, a business with a reputation for adopting an ethical approach to business, would continue this stance after being taken over by L'Oreal. Discuss whether an ethical business can be a profit maximising one. **12**
- (b) Explain what is meant by the Contingency School of Management and how its ideas might affect the behaviour of managers in modern business organisations. **13**  
**(25)**

[END OF QUESTIONS]

## ACKNOWLEDGEMENTS

Case Study—Case study taken from [www.bbc.co.uk](http://www.bbc.co.uk). Reproduced by kind permission of BBC News Website.

Case study—Case study taken from [www.princes-trust.org.uk](http://www.princes-trust.org.uk). Reproduced by kind permission of The Prince's Trust.

Case Study—Case study information was taken from *RBS Annual Reports 2003-2005* and from *RBS Corporate Responsibility Report 2005*. Reproduced by kind permission of The Royal Bank of Scotland Plc.