

Barclays plc and abn amro case study

Education



[pic] London School of Commerce MBA E BARCLAYS PLC AND ABN AMRO CASE STUDY ASSIGNMENT London UK As one of the world's leading banks, with 135, 000 employees in more than 50 countries, Barclays plays a significant role, from working with governments on major infrastructure projects to bringing banking to customers in emerging markets. Barclays is made up of two major businesses: Global Retail and Commercial Banking (GRCB) and Investment Banking and Investment Management (IBIM). Their strategy is to achieve growth through time by diversifying their profit base making their growth relevant to their customers at all times.

This case study will seek to examine the bid and intended acquisition of ABN AMRO, and the early acquisition of Banco Zaragozano by Barclays, the differences in performance of these two banks based upon the strategic and economic motives, focusing on the merger acquisition, and strategy implemented to effect improvements to reflect the results from 2002- 2006.

1. Evaluate Barclays strategy over the period of the case and prior to the ABN bid, paying particular attention to the global industry drivers and the group's performance from 2002-2006.

In order to understand the context that helps to formulate the strategic performance changes at Barclays PLC over and prior bid for ABN AMRO. Barclays' origins can be found back in 1690 to John Freame and Thomas Gould. The name changed to its present form when James Barclay became a partner in 1736. Presently, Barclays is the third largest bank in the United Kingdom. The institution's primary focus is in retail banking, investment banking as well as investment management. Barclays operates in 60

countries with major point of interest in Europe, the United States, Asia, and Africa.

Barclays is one of the ten largest banks global when measured by market capitalization (Barclays PLC, 2004). The institution's core business revolves around retail and investment banking, and it is the later that is being impacted by forces acting upon liberal market economies in varied European Union member states as a result of the aforementioned introduction of the Euro as well as globalization. As a result of the preceding, Barclays services the United Kingdom market as well as providing services to multinational companies located in differing market models. Barclays strategy.

The bank's strategy is to offer a full portfolio of services worldwide, providing a wide range of cross-selling opportunities, in order to achieve good growth through time by diversifying its business base and increasing its presence in markets and segments that are growing rapidly. This is driven by the Group's ambition to become one of a handful of universal banks leading the global financial services industry, helping customers and clients throughout the world achieve their goals. Moreover, the strategy of the bank is based on the principles of earn, invest and grow.

Aligning business drivers with strategic options. The strategic options examined by Barclays were further direct investment or outsourcing to a 'partner' bank and these were considered in the context of the bank's key business drivers. These were: improving their operating model for trade processing; reducing the costs of their trade business in relation to people,

infrastructure and services; improving their trade service capabilities and establishing a workable, non-competing, long-term 'partnership'.

After considering all of the options, including a Joint Venture partnership, Barclays decided to outsource the processing aspect of its trade services offering to ABN AMRO and to focus on delivering enhanced client service. Performance Nowadays, the proliferation of banking consolidation within the industry is and has created a new era of international banking conglomerates in the global industry. The preceding is causing European based banks to appear small in terms of relative comparison. Barclays' operation in a liberal market economy means it competes with equity financing for corporations and as such, this does not represent a strength concerning its overall performance base. According to group's performance from 2002-2006 identifies that Barclays' performance underpinnings are represented by its strategy of acquiring other banking (such as ABN Amro and Banco Zaragozano) concerns to expand its retail as well as other banking services through representation in international markets as represented by the bank's presence in 60 countries.

This provides Barclays with the means to sell its highly profitable investment banking services as well as be positioned to service the cadre of multinational companies that utilize its diverse banking financial service packages. On the other hand, ABN AMRO bank has a presence in 76 countries and territories. Using its worldwide network the bank provides universal banking services consisting of commercial and investment banking products to corporate nationally and internationally operating clients as well as personal and private banking customers.

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In 2007, Barclays announced the proposed acquisition of ABN AMRO bank, in order to expand their distribution base. The deal was valued at €67 billion. On October, the RFS consortium led by Royal Bank of Scotland, bidding for control of ABN AMRO, formally declared victory after shareholders, representing 86 percent of the Dutch bank's shares, accepted the RFS group's €70bn offer. Barclays is known as a consistent performer delivering steady profitability results, 20% increase in profit before taxes in 2003, and again in 2004, and one of the lowest cost to income ratios with regard to banks in the UK.

The preceding indicates that Barclays is well managed. Barclays' focus on internal administrative consolidation as well as the acquisition of banking concerns represents its recognition in order to maintain growth in revenues, return on equity, dividends and profits in response to maintaining a high market capitalization that tends to make it a relatively unattractive takeover target as a result of the high premium required to acquire it. Barclays' retail banking arm is clearly supported by the huge success of its Barclaycard division that has set industry standards in terms of innovations in customer utility. Barclays' presence in 60 countries further strengthens the utility of this card providing business and retail customers with access to their financial accounts globally (Barclays PLC, 2004). The aforementioned diversity in operations is a result of the economic strength of global industry market based economies that have fully recovered from the global recession events of 2002. Barclays' banking acquisition strategy is a direct outgrowth of the foregoing in keeping with the consolidation mania initiated by U. S. based

banks. According to ABN AMRO bank performance, financial results in 2006 added to concerns about the bank's future.

Operating expenses increased at a greater rate than operating revenue, and the efficiency ratio deteriorated further to 69.9%. Non-performing loans increased considerably year on year by 192%. Net profits were only boosted by sustained asset sales. From 2002 to 2006, the further progress being made as a result of understanding the corrective measures that were and are needed to be taken. Barclays' performance throughout this period has remained consistent and steady as the bank has not lost sight of the competencies that helped it achieve acceptable historical performance. .

Compare and contrast the intended acquisition of ABN with that of the earlier acquisition of Banco Zaragozano, paying particular attention to the merger rationale and the motives in each case and the likely synergy gains resulting from the integration of ABN. According to the drivers of the bidding war that preceded the intended acquisition of ABN AMRO bank and the acquisition of Banco Zaragozano by Barclays in 2003, it is important to understand why merger and acquisition (M) take place and the potential gains of doing so. But first some definitions.

Mergers and acquisitions. Mergers and acquisitions (M) are considered as consolidation strategies where a change of control takes place through a transfer of ownership. A merger is the combining of two or more companies into a single corporation. This is achieved when one company or business purchases the property or some other form of assets from another company. The result of this action is the formation of one corporate structure. This new corporate structure retains its original identity. An acquisition is a little

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different from a merger in that it involves many problems being dissolved, and an entirely new company being formed. The main theory of merger and acquisition is synergy, that is, one and one makes three. Through synergy, managers create greater value with the integration of two companies, rather than that of their individual parts. Strategic and economic motives. The strategic of Barclays with the intended acquisition of ABN AMRO bank was to create a big opportunity with the purpose to deliver a new period of faster growth for shareholders in general.

Moreover the intended investment would be implemented at a reasonable price slightly below the recent market trading price. The merger for Barclays was focused in a strong financial performance provides clear strategic advantages as well as stature on the world business stage. The proposed merger with ABN AMRO, offered a unique opportunity to become a leading force in global retail and commercial banking with an estimate 47 million customers, in order to increase financial returns to their owners beyond the rate of the stand-alone entities.

And the fact that this merger, combining the strengths and values of both businesses, gives them confidence in delivery, both in terms of synergies, and determined in considerable detail by ABN AMRO bank and Barclays, in terms of a clearly defined and transparent management structure that we are putting in place. In terms of growth for shareholders, the combined entity would offer a diversified portfolio, both by geography and by business. Exposure to high-growth developing markets represents about a quarter of the enlarged pro forma profit base.

Business segments such as investment banking and investment management, which have as we know strong growth opportunities driven by demographic trends represent about half of profits. For Global Retail and Commercial Banking, the merger would create the fourth largest retail and commercial bank worldwide by market share, and in a world where the needs and buying behaviours of retail and commercial customers are growing more similar, this will create economies of scale.

Furthermore, the benefits generated by the merger between both banks would be: complementary networks, a strong presence in attractive European markets; significantly enhanced positions in high-growth developing markets; a much larger distribution network; and the opportunity to deliver considerable economies of scale. The main reason behind Royal Bank of Scotland (RBS), has trumped Barclays' offer for ABN Amro. For each ABN AMRO share, 79 per cent of which will be in cash, with the remainder in RBS shares. The cash element was higher than expected and the bid, valuing ABN at £71bn (£8bn), beats Barclays' agreed all-share offer, worth £64.5bn. The deal offers better value for ABN AMRO bank shareholders. And price is not the only factor, Royal Bank of Scotland (RBS) also combined cost savings would reach £4.23bn by the end of 2010, easily beating Barclays' estimated savings of around £2.8bn. In essence the driving force behind the success of the Royal Bank of Scotland (RBS) bid over Barclays was in fact the higher share price expectations offering the perfect icing. That partly reflects the radically different strategic visions of the two banks.

Barclays is looking to build a huge universal bank where cross-border synergies could be limited. But the Royal Bank of Scotland (RBS) consortium wants to generate a type of "in-market synergies", by breaking-up ABN AMRO. On the other hand, in 2003, Barclays announces the completion of its acquisition of Banco Zaragozano, at a cost of ? 788 million which fit nicely into Barclays' strategy to grow its business in Europe. Barclays has been present in the Spanish market for 25 years and it the most profitable foreign-owned bank in the country.

The acquisition of Banco Zaragozano to its arsenal makes Barclays the sixth largest private bank in Spain (much of the market is dominated by publicly-owned banks) and triples Barclays customer base and branch network. Barclays aimed to be one of the top five banks in the world and for that it would consider acquisition to achieve the goal. Further, Barclays believes that a physical retail and commercial banking presence is a significant enabler of investment banking growth. The acquisition of Banco Zaragozano, shows that strong retail presence generates ood new business opportunities for global businesses such as investment banking and credit cards. The success or failure of a deal also depends on the time horizon over which evaluation is done. Normally, in the short term, stock reactions to merger announcements tend to raise the target's stock price, while the stock of the acquirer stays about the same. This is normally attributable to the expectation that there will be a bid that is successful and involves a premium above the current market price of the stock.

Acquirer prices stay the same, in general, as the market reacts conservatively, depending on the specifics of the deal. 3. Identify what you <https://assignbuster.com/barclays-plc-and-abn-amro-case-study/>

believe to the key success factors necessary to sustain competitive advantage in the global financial services industry and briefly discuss the implications for the firm? s competencies, structure, and ethical/corporate governance. Critical success factors (CSFs) have been used significantly to present or identify a few key factors that organisations should focus on to be successful.

As a definition, Critical success factors refer to " the limited number of areas in which satisfactory results will ensure successful competitive performance for the individual, department, or organisation" (Rockart and Bullen, 1981). Identifying CSFs is important as it allows firms to focus their efforts on building their capabilities to meet the CSFs, or even allow firms to decide if they have the capability to build the requirements necessary to meet Critical success factors (CSFs).

The main keys success factors for Barclays in the case study are, with over three hundred years of history and expertise in banking Barclays has seen and has gained a reputation for being a trustworthy and a reliable institution to bank and invest with. This reputation has seen it grow into over 50 countries and become truly universal bank providing loans, investments and protecting themoneyof over 42 million customers and client worldwide. Another reason for the success of Barclays would be that it follows a simple strategic premise; ' anticipates the needs of customers and clients and serve them by helping them achieve their goals. Part of Barclays recent success has been their ability to target and identify upcoming emerging markets for example: India, parts of Asia and Africa, namely South Africa, expanding its retail network and cash machine availability. Despite being a truly global

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corporation from a basic bank account to funding Governmental projects, Barclays focus has always been to meet the needs of the individual customer. Furthermore, competitive advantages are difficult to create. It is even more difficult to sustain. Community banks usually can not achieve a cost advantages, especially in head-to-head competition with larger, high-volume institutions.

That leaves differentiation as their primary method for creating Competitive advantages. But that approach is also problematic. It is clear that technology is playing a bigger and bigger role in banking. But today most banks are using functionally identical systems to develop and deliver products and services. This uniformity of technology has resulted in commoditized banking - the antithesis of differentiation. So while emerging technology can create a temporary advantage, sustainable differentiation based solely on technology is virtually impossible.

To make matters worse, technology has actually eliminated some of the historical advantages enjoyed by community banks. Thanks to CRM, personalized service - once the sole province of community banks - is now possible for even the largest institutions. Sustainable Competitive advantages is created by leveraging organization's unique blend of attributes - brand equity, reputation, geographic footprint, specialized knowledge - and articulating it clearly and consistently to your market. Barclays is an excellent example of a bank that has achieved Competitive advantages through specialized knowledge.

On the other hand, on the global financial services industry corporate governance is essential to the wellbeing of an individual company and its stakeholders, particularly its shareholders and creditors. But sound corporate governance is not just a vital factor at the level of the individual corporation. It is also a critical ingredient in maintaining a sound financial system and a robust economy. And that is why governments have taken such an interest in recent examples of corporate governance failures.

It is also why banking supervisors are placing greater emphasis on the role that corporate governance can play in promoting financial stability. In the financial system, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the financial system much depends on the underlying soundness of its individual components and the connections between them - such as the banks, the non-bank financial institutions and the payment systems.

In turn, their soundness largely depends on their capacity to identify, measure, monitor and control their risks. Barclays have designed good corporate governance policies and practices in order to ensure that they are focused on their responsibilities to shareholders and on creating long term shareholder value, and ensuring that behaviour is ethical, legal and transparent. In firms, structure is basically the best way to organize it, in order to accomplish its objectives. It acts as the medium that facilitates the accomplishments of the organizational goals.

It also helps to identify the key activities of the organizational processes and how they are coordinated. Moreover, successful strategy implementation depends to a large extent on the firm's primary organizational structure. A primary organizational structure comprises the firm's major elements, components, or differentiated units. Other means of getting organized are through reward systems, coordination terms, planning procedures, alliances, information, and budgetary systems. Geographical structure It is common in firms that have grown by expanding the sale of their products or services to new geographical areas.

In these areas, they frequently encounter differences that necessitate different approaches in producing, providing or selling services or products. The key strategic advantage of this structure is responsiveness to local market conditions, a clear example of that is the intended acquisition of ABN AMRO and the early acquisition of Banco Zaragozano. To conclude, after being satisfied with its progress in the United Kingdom, Barclays decided to make its name international by going abroad which was another great move.

In the United Kingdom, Barclays had acquired many other small banks, such as Banco Zaragozano, gained large market and profits with each acquisition. As a result of this growth, this company had reached its maturity stage within UK itself; it has reached its peak of growth. Further, Barclays, performance throughout 2002-2006 has remained consistent and steady as the bank has not lost sight of the competencies that helped it achieve acceptable historical performance. Bibliography • Barclays PLC. 2004. Annual Report. Barclays PLC, London, United Kingdom. • Calmfors, Lars, Driffil, John. 1988. Centralisation of Wage Bargaining.

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