

'Economic violence' caused RBS to fail, new study suggests

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University academics look at bank's management and discover why the bank failed. The management style adopted by former senior executives at the Royal Bank of Scotland amounted to 'economic violence' used to build their reputation and win City backing for their disastrous expansion of RBS, according to an in-depth study by management experts from Newcastle University Business School and the University of Leicester.

The authors of the study use the term 'economic violence' to describe a style of leadership based on threatening employees with redundancy and forcing them to meet aggressive sales targets.

This led to the destruction of the company as individuals became embroiled in a battle for status against leaders of rival financial institutions that distracted them from severe problems within their own bank, according to the research published in the journal *Organization Studies*.

The ongoing study charting the rise and fall of RBS provides an alternative explanation for the failure of the bank, based on the disciplines of management and social science rather than solely economics. The 2008 collapse of RBS was one of the key events in the UK's credit crunch.

Dr Robinson and co-author, Ron Kerr, Lecturer in Organisational Studies at Newcastle University Business School, begin by showing how

the traditional old guard of Scottish banking, educated at elite public schools and Oxbridge, were supplanted as the top executives by ‘modernisers’ from more humble backgrounds.

Ron Kerr said: “Previous executives at RBS had retained power by relying on ‘symbolic violence’. The expression, coined by the French sociologist Pierre Bourdieu, means the creation by leaders of the belief among those they lead, that the subordinate position is just and natural.

“However, within RBS the modernisers instead wielded what the authors call ‘economic violence’ to acquire and retain their leading role – a variation on Bourdieu’s “symbolic violence”. This meant a form of leadership that operated through the threat of destroying people’s economic power by laying them off or forcing them to meet aggressive sales targets.”

“A management culture of overt economic violence within RBS’ Scottish headquarters translated into the cultural capital that management would use in their battles for power in the City of London”, suggests Sarah Robinson, Senior Lecturer in Management and Organisation Studies at the University of Leicester School of Management. “Competition among banking leaders for legitimacy within the field triggered irrational behaviour, which contributed to the financial crisis.”

Dr Robinson said: “RBS executives’ reputation for economic violence counted as ‘capital’ in the City of London”.

She suggests this reputation helped RBS secure City backing for the takeover of ABN Amro, the Dutch bank. This acquisition completed RBS’ transformation from a Scottish into a national UK financial institution, and finally an international banking behemoth.

However, during this expansion RBS executives “missed problems of

‘toxic assets’ and bad debt in RBS” because they were distracted by attempts “to legitimate themselves by competing successfully against the English elite banking leaders”.

More information: "From Symbolic Violence to Economic Violence: The Globalizing of the Scottish Banking Elite," *Organization Studies*, February 2012, 33(2) 247-266

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