



University of St. Gallen

“Trans-Cultural Conduits”

**Leveraging Cultural Diversity
of International Subsidiaries**

The case of
Royal Bank of Canada (RBC)
in South America

Paper submitted for the Doctoral Seminar

“Management of North and South America”

Prof. Dr. Yvette Sanchez & Dr. Brian Rogers

Fall Semester 2007

Thomas C. Sears

St. Gallen, Switzerland

Dec 2007

**Note: The findings, interpretations and opinions expressed in the published materials are those of the author of
the work only**

1. Introduction

There are two unstoppable and conflicting pressures shaping modern business today. The first is the trend towards globalization¹. With the innovations of recent technology and global communications coupled with the increased ability to transport goods efficiently around the globe, leaders of successful businesses are reaching outside their local and traditional markets in favour of manufacturing and selling into new geographies.

Coincident with the challenges of expansion into new territories is the increasing pressure from regulators, investors and Boards of Directors for effective controls across all business practices. Corporate Governance plays an increasing critical role in the success of today's modern corporation.

These conflicting pressures bring with them new complex challenges. As businesses move into new markets how well do the lessons learned at home prepare the company for its new market? Will products, services, marketing, sales, and management techniques transcend geography and culture to be effective in the new location? Will clients, employees and stakeholders respond in the same way as they do in the home market? Can companies avoid failure like McDonalds experienced in Barbados and Bolivia² or as Disney nearly experienced at Euro Disney³? Are there techniques to be employed when crossing cultures and geographies?

Corporate Governance can be seen as a distraction and an irritation to businesses and industries, especially businesses that prefer fewer restrictions and regulations rather than more, and leaders who feel they have the best interest of their shareholders, employees, clients and stakeholders. However corporate governance has taken on increasing priority globally by Boards of Directors. How do companies ensure that Corporate Governance policies, carefully crafted in the home location, cross culture and operate effectively in their international subsidiaries?

As we explore corporate governance of international subsidiaries, we are reminded of corporate failings in securities trading subsidiaries such as Barings Brothers (Singapore 1995), Crédit Agricole (New York 2007), National Australia Bank (London, 2004), Allied Irish Bank (Baltimore 2002), Bank of Montreal (New York 2007), China's State Reserve Board (London 2005) and Sumitomo Bank (London 1996). Each discovered that unauthorized trading activity within their international subsidiaries damaged their reputations, deflated shareholder value and resulted in loss of jobs and even criminal proceeding against Senior Executives. Were Corporate Governance practices delinquent? What role could Corporate Governance practices have played in preventing these failings or in detecting them earlier? Did cultural differences play a role? What could have been done differently?

In this paper we examine the Corporate Governance activities of a "Best Employer" in Canada. We examine how this firm employs effective practices in its international subsidiaries in Latin America. We focus on the Securities trading industry and how this Canadian firm ensures client success and proper governance activities in its Latin American trading subsidiaries.

For our purposes, we have selected RBC (Royal Bank of Canada) Canada's leading financial institution. RBC has been recognized for its excellence with numerous awards (see page 3) and has developed a coveted reputation in Canada and abroad. In the following section, we provide background information about RBC. We examine the company's environment and the securities trading industry in Canada. We examine how this "Best Employer" leverages cultural differences of its employees and customers through the use of "Cross-Cultural Conduits", to meet client needs and "enterprise-wide" standards for corporate governance. We examine RBC's corporate governance processes and we examine the how RBC's Board, Group Risk Management and its international securities trading subsidiaries work together using "Trans-Cultural Conduits" to bring the best of Canada and Latin America together, generating global business success and local client satisfaction.

¹ Robert House - Culture Leadership and Organizations (page 4-7)

² Wikipedia – McDonald's Former Locations - http://en.wikipedia.org/wiki/List_of_countries_with_McDonald's_franchises#Former_locations

³ David Rapp – "Euro Disney – a 'Cultural Chernobyl'?", American Heritage, 2007

2 Methodology and Resources

Our analysis follows a qualitative case study approach. We conducted in depth interviews with several senior executives of RBC including:

1. David O'Brien - Chairman of the Board, RBC;
2. Zabeen Hijiri - Chief Human Resources Officer, RBC;
3. Morten Friis - Chief Risk Officer, RBC; and
4. Antonio Vianna - VP International Wealth Management (RBC's securities trading in Latin America).

Notes of these interviews are attached as Appendix I, Appendix II, Appendix III and Appendix IV respectively. Our research also included accessing RBC's annual reports, extensive web facilities and various corporate documents including RBC's "Code of Conduct", Corporate Governance Report (2006), RBC's Corporate Responsibility Brochure and the corporate history of RBC written by author Duncan McDowell entitled "Quick to the Frontier: Canada's Royal Bank" (1993).

Other reference materials include the GLOBE Study of 62 Societies, "Culture, Leadership and Organizations" by Robert J. House et al; texts by Prof Dr Martin Hilb, including "Glocal Management of Human Resources" and "New Corporate Governance"; and, the Reader List for St Gallen University's Doctoral Seminar "Management of North and Latin America", as presented by Prof Dr Yvette Sanchez and Dr Brian Rogers.

3 RBC Financial Group – Company Background and History in Latin America:

Royal Bank of Canada and its subsidiaries operate under the master brand name of RBC. RBC was founded in Canada in 1864⁴ as "The Merchant Bank" a private commercial bank. Today RBC is Canada's largest bank by assets and market capitalization. RBC provides a wide range of financial services including personal and corporate banking, wealth management, insurance, corporate and investment banking, and transaction processing services on a global basis. RBC employs approximately 70,000 employees and provides services to 14 million customers located in 34 countries around the world. We will explore how RBC implements an effective Corporate Governance regime through an active and effective Board, combined with effective and evolving Risk Management and Corporate Governance policies and processes across their complex network of locations, clients, and employees. RBC seeks to have strong Corporate Governance in all of its businesses including its international securities trading subsidiaries.

RBC's history and experience in Latin America spans over 100 years. In the March 1899, RBC opened an office in Havana Cuba⁵, a move that was to see RBC ultimately become part owner and operator of Cuba's Central Bank, "Banco Nacional de Cuba". RBC also opened offices in British Guiana (1914), Venezuela (1916), Brazil, Argentina and Uruguay (1919), Colombia (1920), and Peru (1925)⁶. This expansion was enacted primarily to facilitate Canadian companies who traded (imports and exports) with these countries. Today, while trade financing still occurs, RBC's main thrust in South America is the important Wealth Management Market. Today RBC competes with local financial service providers offering investment management and banking services to wealthy Latin Americans. To be successful, RBC must act, not as a Canadian Bank servicing Canadian companies, but as a local company.

By its own admissions, RBC is primarily a Canadian Bank, with aspirations to build in the USA and to compete in "selected global markets" where it can be seen as a premium provider. At the core of understanding RBC we must examine RBC's "enterprise wide" Vision, Values and Strategic Goals⁷ to see how these key Mission Statements of the Company drive this firm. Following on this we will see RBC's Vision and Values are translated into Risk

⁴ McDowell – "Quick to the Frontier: Canada's Royal Bank" - 1993

⁵ Ibid, pg 172

⁶ Ibid, pg 196

⁷ RBC 2006 Annual Report, inside cover

Management Policies and Practices in pursuit of Governance across all of their businesses, including their international securities trading subsidiaries in Latin America. RBC's Vision, Values and Strategic Goals are:

RBC VISION	RBC VALUES	RBC STRATEGIC GOALS
<p>Always earning the right to be our clients' first choice</p>	<ul style="list-style-type: none"> • Excellent service to clients and each other • Working together to succeed • Personal responsibility for high performance • Diversity for growth and innovation • Trust through integrity in everything we do 	<ul style="list-style-type: none"> • To be the undisputed leader in financial services in Canada • To build on our strengths in banking, wealth management and capital markets in the United States • To be a premier provider of selected global financial services

RBC is known as a “best practice” company and is renowned for its good governance practices. RBC has received acclaim in many categories including being voted Canada’s “Most Respected Company”, ranking #1 in Corporate Governance for 4 years. The country of Canada is ranked #11 in the world for Corporate Governance⁸ and #6 in the World (#1 in North America) for “corporate ethics” of Executive Boards⁹.

4 Trans – Cultural Challenges for Multinational Organizations

Even successful companies can falter as they face the challenges of expansion outside their home market. Sensitivity toward cultural differences and preferences often plays a pivotal role in the success of international initiatives. Understanding and addressing trans-cultural differences has been of increasing interest to academics and business as globalization has grown particularly over the last several decades. Why did McDonalds, one of the world’s most successful fast food franchises withdraw from Bolivia and Barbados after 5 years and 6 months respectively¹⁰? What was it about the multi-cultural environment that prompted Disney to introduce alcohol (wine) and salads in their food lineup in Paris when their “cokes and onion rings” are so popular in the USA¹¹? What role did culture play?

The 1994 GLOBE¹² Research Study led by Robert J. House, leveraged the 1980 work of researcher Geert Hofstede to map 62 societies in the areas of Hofstede’s “four dimensions of culture” (Power/Distance; Individualism; Masculinity; & Uncertainty Avoidance). This extensive 10 year program recognized that “The increasing connection among countries and the globalization of corporations does not mean that cultural differences are disappearing or diminishing. On the contrary as economic borders come down, cultural barriers could go up thus presenting new challenges and opportunities in business. When cultures come into contact they may converge on some aspects, but their idiosyncrasies will likely amplify”. The GLOBE researchers go on to say that “... to succeed in global business, managers need the flexibility to respond positively and effectively to practices and values that may be drastically different from what they are accustomed to. This requires the ability to be open to others ideas and opinions. Being global is not just about where you do business but how you do it”.¹³ These comments give us some insight to McDonald’s failure and Disney’s success (albeit after implementing modifications).

Hofstede¹⁴ proposes that cross-cultural success requires executives to be **“bicultural”** – “It is my firm impression

⁸ Garrelli – “IMD World Competitiveness Yearbook 2003”, pg 643

⁹ Ibid, pg 642

¹⁰ Wikipedia – McDonald’s Former Locations - http://en.wikipedia.org/wiki/List_of_countries_with_McDonald's_franchises#Former_locations

¹¹ Chu/La-Vallee – “Happily Ever After” - TIME/CNN, March 2002

¹² House et al, “Culture, Leadership and Organizations – The GLOBE Study of 62 Societies”, pg 5

¹³ IBID, pg 5

¹⁴ Hofstede – “Culture’s Consequence. Comparing Values, Behaviours, Institutions and Organizations across Nations” 2001, pg 440

that the failure rate of non-home-culture executives in multinational business organizations is much higher than that of home-culture executives, precisely because the former frequently do not succeed in becoming sufficiently bicultural". In examining success across cultures, Hofstede identifies that those employees who are in "**linking pin**" roles need to be bicultural – "Ordinary members of foreign national subsidiaries do not have to be bicultural; only those in "linking pin" roles between national subsidiaries and the international superstructure need to be biculturality ... because these linking agents need a double trust relationship, both with their home-culture superiors and colleagues and with their host-culture subordinates". "Bi-culturality" and "Linking Pins" are important building blocks in our study.

5 "Trans – Cultural Conduits"

The term "Transcultural Conduits" was first used by Dr. Martín Maldonado-Durán, an Argentinean psychiatrist who specializes in the mental health of infants and young children. In a presentation he gave to the Kansas Association of Infant Mental Health (KAIMH) entitled: "Practices for Therapeutic Work within a Cultural /Transcultural Framework"¹⁵, Dr Maldonado-Duran recommends "Transcultural conduits" as being the "Use of staff/translators, persons from the 'same culture'" and to "find ways to make a bridge" when care givers find themselves crossing cultural barriers in providing care to infants in foreign cultures. In creating and explaining this term, note that Dr Maldonado-Duran infers the need for Hofstede's "linking pins" (translators).

For the purposes of this paper however, we borrow from both Hofstede and Maldonado-Durán to build a more comprehensive model of the term "Trans-Cultural Conduits". In our examination of RBC in Latin America, we not only see a model that includes biculturalism and linking pin roles but Trans-Cultural "processes". RBC employs a collection of trans-cultural corporate processes, including operating processes, technology, human resources policies and corporate culture. In combining these trans-cultural processes and policies with Hofstede's observations on "bi-culturalism" and "linking pin" roles, we create a new definition of "Trans-Cultural Conduits" for this paper.

To understand how these conduits allow for "flows" between RBC's Headquarters and Latin American subsidiaries, we need to explore RBC, its Values, its governance processes and approach to culture in greater depth and breadth.

6 RBC – "Enterprise-Wide" Standards for Corporate Governance and Corporate Values

Corporate Governance – In selecting RBC as a "best company" for this review, it is clearly in the area of Corporate Governance that this company stands above the norm. The financial services industry is highly regulated in every country. However in recent years global terrorism and horrific corporate scandals have changed the environment for all institutions and all industries. These events have pushed Regulators to respond with increased requirements for governance and reporting (Financial Action Task Force, Basel II Accord, Sarbanes Oxley, etc) for all. RBC has responded by creating "Enterprise-wide" standards for Corporate Governance and Risk Management.

For RBC, Corporate Governance starts at the Board of Directors. Chairman of RBC, David O'Brien, remarks in his "Chairman's Message" in RBC's 2006 Annual Report¹⁶:

"As stewards of the organization, we believe the foremost purpose of the Board of Directors is to create an environment for management that demands integrity while promoting long-term shareholder value. Good governance, which enables the creation and enhancement of shareholder value, is as important to the success of RBC as the operational achievements of the company." "In 2006, our approach to corporate governance continued to receive recognition from our peers. In an annual ranking by chief executive officers of Canada's major companies, RBC was again named Most Respected Canadian Corporation, placing first in the category of Corporate Governance for the fourth consecutive year."

Risk Management – RBC follows a mature Risk Management process that serves a critical role in promoting Corporate Governance by developing and ensuring "Enterprise-wide" standards of Risk Management are followed internationally, but in also allowing for local effectiveness where needed. RBC has 1200 individuals in the Risk

¹⁵ Maldonado-Durán, "Practices for Therapeutic Work within a Cultural /Transcultural Framework" - www.kaimh.org/slides/practice/practice.PPT

¹⁶ RBC 2006 Annual Report – pg 13

Management function who are located around the world but who report independently to the Chief Risk Officer, Mr Morten Friis. Mr Friis in our interview (Appendix III) states:

“With these principles in mind, RBC manages Risk first on an Enterprise wide basis. Here we examine all Risks to the corporation and define what influence we and Management can bring to bear in mitigating Risk. As a communication tool, RBC uses the “Risk Pyramid” (See pg 72 of RBC’s 2006 Annual Report).



We use this tool to present risk to our Board, our Management Committee and all of RBC employees around the world. With our enterprise wide standards set, we then create operating standards. Within RBC’s Risk Management Team we have 1200 employees globally, who serve as our eyes and ears as well as our ambassadors to business functions, geographies and subsidiaries. These employees become expert in their unique fields and geographies and often sit as members of the management teams of the business units and regions they serve. “

By having local Risk Management representatives attached to local operating teams, they serve as “linking pins” by translating the “enterprise-wide” guidelines into local business solutions. Mr. Friis also states that Risk Management works closely with the Audit teams that visit subsidiaries. Visiting Audit teams also serve as a “linking pin” role.

RBC Corporate Culture – According to Ms Zabeen Hirji, RBC’s Chief Human Resources Officer¹⁷ RBC prides itself in operating a culture that is “collaborative” and “welcoming”. It operates in a traditional North American hierarchical structure. Enterprise-wide Human Resources Policies and Practices are driven by the HR Function. In keeping with best practices of Glocal¹⁸ companies, at RBC the responsibility of managing human resources rests with line management around the world to allow local responsiveness but global integration. It is important to note that Canada is a country of immigration and now over 50% of Canada’s annual population growth¹⁹ is driven by “New Canadians”, a trend that has been building for several decades. This has affected employee demographics, cultures and backgrounds and provides both challenges and opportunities. According to Ms Hirji, RBC has embraced this societal change, by welcoming and valuing diversity and enshrining this as one of their core corporate Values (see page 3 - highlighted) for all RBC employees around the world to appreciate and follow. It is equally important to note that the cultural diversity of the home market creates an appreciation at the top of RBC toward cultural differences and openness at the corporate Headquarters toward cultural differences in their subsidiaries.

Ms Hirji points out that while there is a strong ‘over-arching culture’ within RBC: “There are many different sub-cultures, with each business and geography having its own distinct subculture”. She goes on to say that “Above all the culture of RBC is values-based and grounded in RBC’s stated (Enterprise-wide) Values” (See pg 3.) The recognition by the Chief Human Resources Officer of RBC that the existence of subcultures is important to RBC’s strategy; and, that responsibility of HR Management is delegated to line management; and, that RBC recognizes cultural diversity as a core value, collectively creates an environment where executives like Mr Antonio Vianna in Latin America can bring forward unique needs and be allowed to modify certain non-core components of the “Enterprise-wide” standards to meet the needs of his local clients, employees and other stakeholders.

RBC’s “Code of Conduct” is another critical enterprise-wide Human Resources Policy that is used effectively to communicate and educate all employees on governance and compliance matters and their responsibility to ensure

¹⁷ Interview with Ms Zabeen Hirji, Chief Human Resources Officer, RBC (See Appendix I)

¹⁸ Hilb – “Glocal Management of Human Resources” – page 125

¹⁹ Citizenship and Immigration, Government of Canada - www.cic.gc.ca/english/research/papers/demographics.html

RBC's Values enterprise-wide codes of behaviours and being adhered to by all employees. Collectively this approach to cultural diversity, the recognition of sub-cultures and the creation of enterprise-wide standards but with local control and empowerment also become "Trans-Cultural Conduits".

7 RBC - Securities Trading in Latin America

RBC's securities trading businesses also follows an enterprise wide approach. In its Securities trading business, RBC takes its lead from the highly respected Ontario Securities Commission (OSC), across its global operations in which it operates. As Canada's leading securities regulator, the OSC develops policies based on international standards such as the OECD, the SEC and FSA. The OSC sees its mandate as being: **"To provide protection to investors from unfair, improper or fraudulent practices, and to foster fair and efficient capital markets and confidence in capital markets"**²⁰. In our interview with Antonio Vianna, RBC's head of Wealth Management in Latin American subsidiaries (Appendix IV), we learn that RBC defaults to the OSC standards for training and certification of staff and management who are operate in Latin America, as it tends to be higher than available locally. RBC performs operational oversight of employee trading practices in Latin American in compliance with OSC standards for the same reasons.

As head of RBC's international Wealth Management and Securities Trading subsidiaries in Latin America Mr Vianna has responsibility for sales, service and corporate governance in Brazil, Argentina, Chile, Mexico, Panama, Venezuela and Uruguay. The Securities Trading products and services offered include: Discretionary Investment Management, Advisory (brokerage) services, mutual funds, trust, custody and structured investments. We interviewed Mr. Vianna (Appendix IV) as well as Morten Friis (Chief Risk Officer – Appendix III). They both spoke of RBC's "Enterprise-wide" standards but demonstrated that local flexibility was also operating in these subsidiaries.

Governance & Operational Effectiveness:

Friis: "Ensuring Governance in our subsidiaries though our risk management practices is a key challenge for Management. Things can go wrong. Also we know that the Risk environment of a company differs the further away from the "Mother Ship" one moves. What we have learned from these acclaimed cases is that it is critical for both subsidiaries and the main company to have the "appropriate" level of controls in all their operations. Key to success is having the right infrastructure locally, and the appropriate links to the Parent Company for Risk Management policies, Governance practices as well as common standards of operation. In these cases and in these subsidiaries the key challenge is adequate separation of duties. This was a failing with Barings, when Nick Leeson controlled the "back office".

Regulatory guidelines and Oversight

Vianna: RBC has developed global on-line trading technology. It is highly advanced and is the same system in all locations. It is operated centrally in Canada for all trades and complies with RBC's regulators (OSC, etc.) and our "enterprise-wide" standards of compliance and controls. This central technology is tied to our centralized "Back Office" operations for trade processing and settlement. This is the crucial "separation of duties" that Barings missed in the famous Nick Leeson case. All managers are required to review every trader's trades from the day before and to sign off as a second set of eyes as well as a peer review. They also look for what we call "suitability" of the trade for that client. To help managers, our technology produces the reports under what we call the "Supervisor's Tool Kit".

Employee Standards

Vianna: "We have very high training standards for all managers and employees that are common across our global network. Although it may not be necessary to have a particular course to trade derivatives or futures in our regions, for example, in our global business we do have this standard and insist our employees pass these Canadian based exams from the Investment Dealer's Association of Canada."

Local Effectiveness:

Vianna: "We have a Compliance Officer in every single subsidiary. That officer does not report up to me but to a different executive (Morten Friis) in RBC. They ensure we apply global standards of operation yet can operate effectively in the Latin American market for our clients. They are compensated on a unique basis than the office they are responsible for. I have had to develop a local investment Advisory Board to work with RBC's global investment analysts to develop investment recommendations specific to the Latin American market – investment that our clients would

²⁰ Ontario Securities Commission 2007 Annual Report

know, would be interested in owning and would be following in their local press. Our clients love it. We have also learned to allow certain deviations from our global norms, within reason that we monitor closely.”

8. “Trans-Cultural Conduits” in RBC’s International securities Trading Subsidiaries

As we consolidate and map our discussions with Mr. Vianna, RBC’s Chief Risk Officer and RBC’s Chief Human Resources Officer we start to see the Trans-Cultural Conduits that RBC uses reflect Hofstede’s classical “Bi-culturality” and “Linking Pin roles” but also incorporate Glocal²¹ processes and practices that interplay between BOTH the Corporate Headquarters and the Subsidiary, allowing these subsidiaries to work effectively from RBC’s global perspective, but also effectively in their unique country and regional cultures.

Importantly, in our interview with Mr Vianna, (Appendix IV) he indicated that RBC is indeed successful in Latin America. When asked what allowed this Canadian firm to be successful in Latin America, Mr Vianna identified 6 “key ingredients”. Mr Vianna attributes RBC’s success in Latin America to:

- * Leadership (him being Brazilian born but educated in Canada, and trusted by RBC - Bi-cultural, & Linking-Pin)
- * RBC’s practice of “99%” Recruitment in the local community (Linking Pin)
- * Confidence of Head Office (Bicultural – Glocal Process)
- * Governance thorough Great Risk Management (Glocal Process)
- * Good People and Good Training (Glocal Process)
- * Corporate openness to cultural diversity (Bi-cultural & Glocal Process).

Upon reflection we see all 6 ingredients connect to our broader definition of “trans-cultural conduits”. We see Hofstede’s “Bi-culturality” and “Linking Pin roles” together with RBC’s “Glocal processes”. As the executive responsible for RBC’s Latin American subsidiaries, Mr .Vianna presents his own “biculturality” being a Brazilian born executive of this Canadian Bank, as a crucial factor to their success. He stressed that “every country (in Latin America) is different” and as such, companies cannot use a “cookie-cutter” approach to in providing products and services in Latin America. Unique service propositions are needed for each unique client group (culture). He clearly points out that he and several of his employees play “linking pin” roles by being aware of RBC’s global policies and processes and able to interpret and implement them into local application:

Examples of “Executive Biculturality” at RBC: (Interview with Mr Vianna)

1. “Leadership - I run the division. I was born in Brazil. I was later educated in Canada and so I have the language and cultural affiliations of Latin America as well as a close understanding of Canada and RBC’s operating standards.” Being an executive officer of RBC, Mr Vianna has the “trust” of his ‘home-culture superiors’; and ...
2. “Canada’s openness to other cultures makes most every Canadian and Canadian companies like RBC aware of the differences that exist and open to “listening and learning” in our local offices and at our Head Office rather than making assumptions and going forward. This last attribute in most important for our company’s success in Latin America.”

Examples of “Linking Roles” at RBC: (Interview with Mr. Vianna)

1. “RBC’s practice is to recruit in the region - clients can relate to our employees. Following this policy, 99% of our team is from the region. They are trained in understanding RBC’s needs for governance and are able to convince our local clients that the higher operational and governance guidelines we follow are in fact “good” for the client. So in the end we operate at RBC’s highest standard of global operations and use our local staff to translate as needed to clients. That’s one of the mechanisms we use to ensure we get the best of both worlds.” ... and ...
2. “We have a Compliance Officer in every single subsidiary. That officer does not report up to me but to a different executive in RBC and is compensated on a unique basis than the office they are responsible for. That person is responsible to oversee all trades and the way we are conducting our business is in accordance with RBC’s standards. They are to monitor for unusual activity, unusual trends, or unauthorized trading. They have the obligation to ensure that our people understand as well as to report anything outside of the ordinarily.”

9. Cultural Implications for RBC & the effect of RBC’s “Trans-Cultural Conduits” in Latin America

²¹ Hilb – “Glocal Management of Human Resources” – page 125

As mentioned earlier, Robert House in the GLOBE Study advises that *“Being global is not just about where you do business but how you do it”*.²² When asked if RBC needed to modify any of its products or services upon entering the Latin American market, we learn from Mr Vianna that the two way conduit flows within RBC actively allowed effective dialogue, and in the end modifications from RBC’s standard service offering. While still being true to RBC’s “enterprise-wide” standards for Governance, Risk Management and RBC’s Values, Mr Vianna (Appendix IV) tells us of how the cultural differences in South America required the Canadian firm to re-think its product line, its guidelines for investment management and its approach to service delivery. According to Mr. Vianna:

“My group provides Wealth Management services. We help wealthy people and families around the world with their financial needs. In most cases, and notably in Canada and the USA, we use Trusts as the lead “product” for discussion. Trusts are great and quite well understood in North America. They allow for estate planning, investment management and there can be many tax benefits as well. (RBC is big in this business globally – author). However trusts require the “investor” to give up ownership of their assets and allow the trustee (bank) “discretion” on how the wealth will be managed. Giving up ownership or control over their assets is not an acceptable condition for Latin Americans. Most Latin American clients have a strong interest and in fact a need to be actively involved with their investments. I personally feel this stems from the days of hyper inflation when investors felt the need to immediately liquidate or to pop in and out of the market as they felt things changed. Latin Americans are very active investors, so trusts do not work. Instead we offer brokerage accounts as our lead product, rather than trusts that we might see in a more traditional wealth management marketplace. Now, we “recommend” choices to clients and the client decides and provides approval. This is a better cultural fit.”

The first cultural variation we recognize is in the products being offered by Mr Vianna’s team, to meet the needs of the wealth management market in Brazil, Argentina, Uruguay and Chile. Going on, Mr Vianna says:

“Secondly, our clients are familiar with investment opportunities that our global teams in Canada, New York, London and Tokyo are not familiar with. Embraer would be a great example. But RBC has strict guidelines on what we can recommend to our clients, so I have had to develop a local investment Advisory Board to work with RBC’s global investment analysts and we develop investment recommendations specific to the Latin American market – investment that our clients would know, would be interested in owning and would be following in their local press. Our clients love it.”

This second cultural variation has interesting implications for our study and truly underscores the effectiveness of RBC’s Trans-Cultural Conduits. In this example, RBC now allows clients to choose investments outside of RBC’s traditional areas of expertise. Further they allow for an active investment committee to operate out side of RBC’s central operating control. To achieve this Mr Vianna had to request and receive approval from his headquarters to establish a local investment management committee and to give them the authority to review, select and recommend local and regional investment choices for this South American client base. While the investment committee follows RBC’s enterprise-wide standards for analysis and selection, they focus exclusively on the South American market. We see several Trans-Cultural Conduits in action in this example: first, Mr. Vianna has the trust of his Headquarters and was successful in recommending and obtaining approval to operate out side of standards; Second the Investment Committee itself becomes a Trans-cultural Conduit as it operates between the Latin American Market, but also follows and translates RBC’s global standards for investment selection and criteria; Third we observe the Human Resources policies as a Cross-Cultural Conduit, a policy that recognizes “subcultures” and supports the belief that leveraging diversity (culture) is good for business. The cultural variations continue, as Mr Vianna explains:

“We have also learned to allow certain deviations from our global norms, within reason that we monitor closely. A client can go overweight in a sector or a stock, can custom design their portfolio to some degree, can liquidate when they get uncomfortable and can go into emerging market investments that they like and know. These variations are unique in RBC as that is what our Latin American clients want.”

As Mr Vianna explains above, many countries in Latin America have experienced extreme inflation. The value of money or an investment can disappear overnight. This history can create an anxiety in some investors, and coupled with a penchant for active involvement in their portfolios, some Latin Americans may request extreme actions on their portfolios. While extreme actions might be considered imprudent in a North American culture, Mr Vianna advises us that certain clients are very pleased to have that capability, which as he says is “unique in RBC”. By leveraging his Trans-Cultural Conduits, Mr Vianna has been able to receive exceptions to RBC’s Enterprise-wide investment policies and practices in order to meet the unique needs of his South American clients.

10. “Trans-Cultural Conduits” in RBC’s South American businesses

²² House et al, “Culture, Leadership and Organizations – The GLOBE Study of 62 Societies”, pg 5

The use of “Conduits” as a two way flow between these Latin American Offices and their Canadian (North American) parent organization does appear to be affective for RBC. This two way flow facilitates a “near-biculturalism”, or at least a higher cultural sensitivity among a wider group of executives. And the two way flow facilitates Hofstede’s “Linking Pins” and the effectiveness of the people in these key roles.

1. Bi-cultural - We have seen several examples of Hofstede’s Biculturalism, including Mr Vianna himself, as the Brazilian executive responsible for the business. As well, Mr Vianna has referred to Canada being a country of immigration and that many other RBC employees in their Canadian headquarters have family roots throughout Latin America. Similarly we see many “Linking Pin roles” all who share a bicultural component in their roles.

2. Linking Pins – There are several individuals we have discussed that operate in critical “Linking Pin roles” for RBC in Latin America. As Hofstede reminds us, these key individuals operate in a “double trust relationship, both with their home-culture superiors and colleagues and with their host-culture subordinates”. People we have seen operating in Linking Pin roles for RBC’s Latin American operations include:

- Mr Antonio Vianna
- Other visiting Senior Executives and supporters of Mr Vianna’s cultural proposals
- Compliance Officer / Risk Manager in each office throughout Latin America (Corporate Governance)
- Latin American Investment Committee members (local knowledge, global standards)

3. Trans-Cultural (“Glocal²³”) Processes – As proposed in this paper the third element of “Trans-Cultural Conduits” are Trans-Cultural or Glocal “Processes”. In addition to people, RBC has processes in place that support the two-way flow of information and ideas and helps bridge the cultural and geographic distances and to also build the “Double Trust relationship” Hofstede references. These Trans-Cultural processes support the firm’s ability to operate at “Enterprise-wide Standards”, building the confidence of home-culture superiors and they also support the ability to modify local products, local service delivery and approach in order to meet the unique needs of these South American clients. The Glocal Processes we have encountered in our examinations of RBC’s Securities Trading Subsidiaries in Latin America, include:

- Human Resources policies
 - Identifying and enshrining Diversity as a corporate strategy
 - Code of Conduct, expected behaviours of all employees
 - Overriding “Values-based” culture
 - Recognition of the need for “subcultures” to support business dynamics
- Securities Trading Technology
 - operating within each Latin American
 - complies with “enterprise-wide” standards
 - allows local input, yet global monitoring
- Investment Committee processes
 - Allows and supports local investments for local client needs
 - Meets and feeds into RBC’s “enterprise-wide” policies and practices
- Auditing Processes
 - Overseeing Enterprise-wide Standards
 - Acknowledges and allows local exceptions

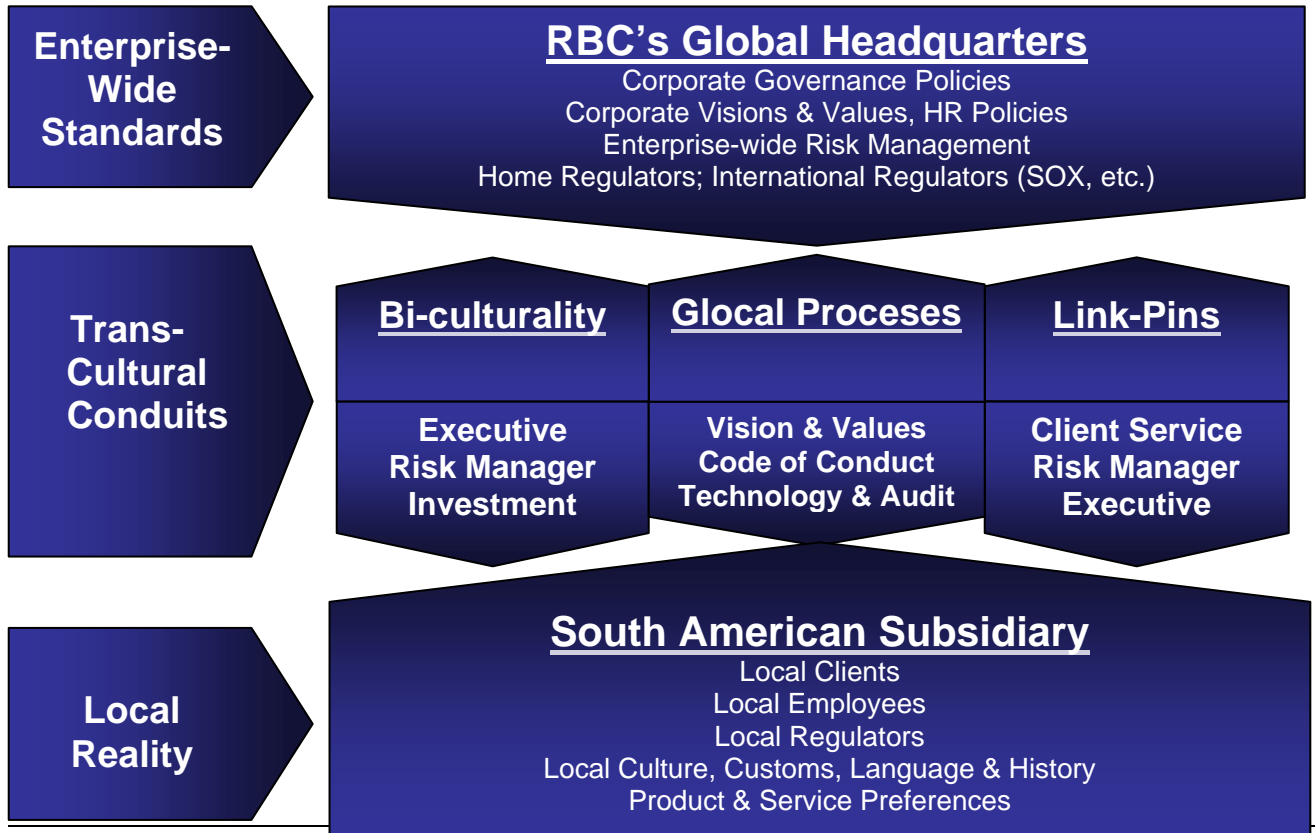
Grouped together, these Trans-Cultural people and processes act as Conduits to and from the South American subsidiaries, ensuring clients’ needs are being met but also ensuring that “Enterprise-wide” requirements for governance, stability, quality, Values and Risk Management are also being met. Trans-Cultural Conduits prevent the errors of generalizations and “stereotyping”, and allow both the enterprise and the unit to look at the unique details of each client situation and custom design solutions specific to each client group, each situation and each culture.

11. Conclusions – “Trans-Cultural Conduits” - Leveraging cultural Diversity for Business Success

²³ Hilb – “Glocal Management of Human Resources” – page 125

As we consolidate the comments we have received from Mr Vianna and RBC’s other senior executives we start to see how RBC’s “Trans-Cultural Conduits” work synergistically and effectively together to support a two-way flow of information, problem solving and decision making.

These Trans-Cultural Conduits serve as the translation buffer and the International subsidiaries perform at their optimum level, meeting the needs of clients and their parent organizations. Being people and processes, these conduits are not static. They form an almost organic structure that adjusts with time and allows these somewhat divergent and perhaps conflicting business requirements to work as close to harmony as possible. While nothing is ever perfect, these Conduits allow for a continuing flow or dialogue, leading to an understanding on both the Local and the Global needs of the organization.



In our Case Study of RBC, we have observed a company that recognizes cultural differences, but also leverages differences for unique client solutions and ultimately for business success. As Mr Vianna mentions in his interview, RBC has received acclaim from their South American clients, while growing the business revenues “quite materially” over the past 5 years. Further, this wealth management team throughout South American has not experienced any “serious issues or rogue trading or other fraudulent activity” - issues that have plagued the international subsidiaries of well known international financial institutions.

Local client success leading to business success while experiencing satisfactory corporate governance; these are all the signs of leveraging cultural diversity in international subsidiaries. For RBC, these “Trans-Cultural Conduits” have leveraged cultural diversity leading to international business success.

TCS

Appendix I: Interview – MR David O’Brien – Chairman, RBC

To: Mr. David O'Brien
Chairman
RBC Financial Group
Toronto, Canada

Dear Mr O'Brien,

Thank you for agreeing to a telephone interview to support my Doctoral Seminar on Corporate Governance. Let me first mention that your responses will be kept in strictest confidence and will only be used for academic discussions, research and analysis. If anything is unclear, or if you have any questions, please contact me directly.

It might be helpful to understand the purpose of this assignment and the insights I am seeking to obtain from you as the Chairman of RBC.

(Note: the Interviewer has transcribed the answers as closely as possible to the content and intent of the responses.)

Regards,
Tom Sears
St Gallen Student id: 06612311 (Studierende HSG)

=====
Background:

In this Doctoral Seminar, students have been asked to select a "best company" in a country to analyze their Corporate Governance practices. Student Tom Sears has selected RBC Financial Group (Royal Bank of Canada or "RBC") in Canada with an interest in examining three key areas of research:

1. For this Seminar, students will analyze how the Board of a "best company" operates. Of particular interest is an understanding how the Board constructs itself and organizes its work to be:

- A) Situational (Company size, industry, internal/external considerations)
- B) Strategic (Board Size, Culture, Diversified/Roles, Measures)
- C) Integrated (Board Selection, Feedback, Remuneration) and
- D) Controlled (Auditing, Risk Management, Communications, Evaluation)

2. As modern companies grow into multi-national, international or global corporations the student will be analyzing how RBC oversees their international subsidiaries and in particular securities trading subsidiaries.

3. This research will also be used by the Student for his thesis on governance by Board of Directors of their international subsidiaries.

TCS – October, 2007

1. **Situational:** As a company, RBC is large, complex, listed, highly regulated, mature, a financial institution (bank), the largest company in Canada with a substantial presence in the USA and elsewhere around the world. RBC is seen as an example of “Best Practice”. What is unique about the Board that contributes to RBC being seen as a “Best Company” for Corporate Governance?

RBC has an excellent Board carefully crafted for its skills and diversity. I would say that most Boards have generally taken the issue of Corporate Governance very seriously especially over the 10 years and RBC is not too different from other firms in the area of Governance Processes or Practices. I think the one thing that sets RBC’s Board apart from other Boards I have observed is the individuals we have attracted to RBC’s Board. These Directors all have worked in large Corporations, they have rich business backgrounds, as a group their skills are very complementary. But most importantly they are all high performing individuals who worked for high performing organizations. As a result they come to the Board with high performance expectations for the Corporation. They operate at that level and set a high performance culture at the Board and for Management.

2. **Strategic:** What comments would you say about the following:

- A) Targeted Composition of Directors (Roles, Competencies, National culture, Demographic). Is there a process for identifying skills for new/incoming Directors? Are they targeted for certain committees?

We are in a process of continuous improvement. We are constantly being advised on new products and events. As I mentioned earlier we are pleased with our Directors and the skill sets they bring to the Board. We use a “Skills Matrix” of our Board members that is maintained by our Corporate Secretary. The Matrix identifies industry and professional training we have at the Board. When we are considering new members of the Board we discuss where the business is going, what skills, background or geographic strengths we need. The skills analysis does take into consideration our needs on Committees and how our businesses are changing. But the overriding element is we want good people, good people who make good judgements. That’s not always easy to find, especially in the non-Canadian marketplace where our network might not be as effective as it is in Canada. We use a combination of research and personal interviews. In the end it’s not too different from hiring someone in a company. In the end all Directors have peer reviews and we provide feedback if it’s necessary but for the most part we have a very effective Board.

- B) Board Culture (Outward, Holistic, Consensus, Open, Trusted, Global, Local)

How would you describe the culture of the Board? As Chairman, what do you do to manage the environment?

The culture we have is one of constructive discussions. We need to ensure that open discussions occur between the Board and Management, between Board members and other Board members and a culture of allows for what I call constructive dissent and debate. We do not always agree on things and that allows for other opinions to enter the discussion and all members to share their experiences and views to a particular issue. In the end we have to make a decision and move on. I often find that my role is to ensure everyone is expressing their view and in the end we come to a decision. Boards have dramatically changed in the last 7 to 8 years. Today everyone is engaged. That allows for better governance and better decisions.

- C) Board Structure (Size, Committees)

* See Annual Report

- D) Board Measures of Success (Vision, Direction, Criteria)

Does the Board set their own Measures? Example?

The Board approves the Strategic Plan for the Corporation and is there to support Management. As such we do not have any separate Measures we follow. The Board is there to:

1. Provide Oversight to Management
2. Decision Making and Approvals
3. Contributing to the Corporation’s success through advice via the CEO.

The Board is tied to the success of the Corporations and so our Measures are the same of the Corporation’s.

One other measure we monitor is the Board’s effectiveness. We seek feedback with our Annual Survey of Board effectiveness and our bi-annual peer review of Board members. These provide very useful mechanisms directed at the Board to ensure we are hitting our expected measures of success.

3. **Integrated:** In maintaining the effectiveness of RBC's Board Directors and their currency with issues, what comments would you provide regarding the following:
- A) **Board/Director Recruitment (Succession Planning, Recruitment process)**
 We follow a process of continuous improvement. We are constantly being presented to on new products and industry events. We have regular training and offsite sessions. Any director who feels that they need information, we arrange for that to happen. It is critical that Directors are comfortable especially with the wide variety and complex subjects we discuss. We need good decisions. As I mentioned earlier we are pleased with our Directors and the skill sets they bring to the Board. We use a "Skills Matrix" of our Board members that is maintained by our Corporate Secretary. The Matrix identifies industry and professional training we have at the Board. When we are considering new members of the Board we discuss where the business is going, what professional skills, background or geographic strengths we need. The skills analysis does take into consideration our needs on Committees and how our businesses are changing. But the overriding element is we want good people, good people who make good judgements. That's not always easy to find, especially in the non-Canadian marketplace where our network might not be as effective as it is in Canada. We use a combination of research and personal interviews. In the end it's not too different from hiring someone in a company. In the end all Directors have peer reviews and we provide feedback if it's necessary but for the most part we have a very effective Board.
- B) **Board/Director Feedback (Evaluation process)**
 We have several mechanisms we use. First there is the annual Board Effectiveness survey that we send to all Directors and key members of Management. Secondly we have a bi-annual peer review of every Director. * See Annual Report for more information.
- C) **Board Remuneration (Internal and external equity, Company performance)**
 * See Annual Report
- D) **Development (Director and Management Development/Succession)**
How does the Board drive Management Success within RBC?
 The Board plays an active role in Director and Management Development and Succession Planning. We have outlined the development and succession of the Board which we do as needed, and what we do annually on a formal basis. With regard to Management Development and Succession Planning the HR Committee of the Board plays an active role for us on an on-going basis. But we see this as so important that we now hold an annual 2 day Board session dedicated to the topic of Talent Management. At these sessions we ask all senior Management to prepare and present their Talent Management plans, which addresses both people development and Succession Planning in the Company. The HR Committee drives this process throughout the year and develops plans for the CEO and other key roles.
- Our current drive is to develop International Executives, people who have what we call a "world view". We need to grow this talent within RBC, but we recognise that it is not always possible to do as RBC has a limited number of International assignments to develop that world view, but it is high on our priority list. As RBC expands internationally we continue to internally develop these Management skills but realise it will be a mixture of internal and external skills. One other possibility is the talent we acquire, as we recently did in the Caribbean regions with the acquisition of RBTT in Trinidad. We have acquired a number of talented managers who bring valuable international skills to RBC.
- Another priority we are reviewing is adding more international Directors to our Board. That is not easy as we have active Committees. We have had European Directors previously and it wasn't always easy for them to be engaged. We are working on this and as we grow internationally we recognise this will become more critical. Our Directors are very active and I estimate the time commitment to be roughly 4 days a month, which can be a serious time and travel commitment for busy executives.
4. **Controlled:** In maintaining RBC's Board effectiveness and currency, what comments would you provide regarding the following:
- A) **Auditing Function (Independent, Transparent, Integrity)**
 * See - Interview with Morten Friis – *Appendix II*

B) Risk Management (*)

* See - Interview with Morten Friis – *Appendix II*

C) Communication (Promote Transparency, Promote Culture)

* See Annual Report, RBC's Code of Conduct, RBC's Employee Diversity Report, RBC Web site, RBC's Corporate Responsibility Report, etc.

D) Board Evaluation (By Directors, Management, Academics, Media, other)

How do you as Chairman integrate comments from the Annual reviews of the Board and Directors into Board practice? As a "Best Company" how does the Board stay current with "Best Practice" for Boards? Firstly, the men and women we attract to our Board are very active in the business world and like often have other Board positions, or as CEO report to a Board in their own Companies. Collectively we bring a lot of experience on best practice. We also have a very active Corporate Secretarial division who monitors Board practice from an Academic, Management Media and other perspectives.

We talked earlier about our formal Board evaluation processes. Our Annual Board Effectiveness Survey seeks feedback from a wide range of stakeholders. Our bi-annual Director peer review sessions focuses in on individual Directors and allows for feedback to each Director as a formal discipline. But if some particular action needs addressing right away we do not wait.

We also have an active Subsidiary Governance Officer who leads a team of professional to ensure that our Best Practices are being followed in the 34 countries around the world where we have RBC locations.

Our Corporate Governance Committee monitors all of this. From a formal or procedural perspective we ask them to bring forward recommendations on Board Governance and practice for the Board to consider. If something requires immediate attention we address it immediately.

END OF INTERVIEW

Appendix II: Interview – Ms Zabeen Hirji – Chief HR Officer, RBC

**University of St. Gallen
Doctoral Seminar - HRM Policies and Practices
Royal Bank of Canada Financial Group (RBC)**

QUESTIONNAIRE:

To: Ms Zabeen Hirji
Chief Human Resources Officer RBC Financial Group
Toronto, Canada

Dear Zabeen,

Thank you for agreeing to provide information to support my Doctoral Seminar on Human Resources Management. Let me first mention that your responses will be kept in strictest confidence and will only be used for academic discussions, research and analysis. If anything is unclear, or if you have any questions, please contact me directly.

It might be helpful to understand the purpose of this assignment and the insights I am seeking to obtain from you as the Chief Executive for Human Resources in RBC.

My assignment is due in early June and I would ask you to return this questionnaire at your very earliest opportunity before the end of May.

Tom Sears
St Gallen Student id: 06612311 (Studierende HSG)

=====

In this Doctoral Seminar, students have been asked to select a “best company” in a country and analyze their HRM policies. Student Tom Sears has selected RBC Financial Group (Royal Bank of Canada or “RBC”) in Canada.

For their assignment, students will analyze HRM policies and how they contribute to that company being a “best company”. The analysis will attempt to understand the functions, the roles and the processes used by:

- E) the Board (including Nominations & Compensation Committees),
- F) the CEO (& Top Management) and
- G) the Head of HR (& HR organization)

in:

- i) Developing HRM Policies,
- ii) Implementing HRH Policies, and
- iii) Evaluating MRM Policies

Lastly, as modern companies grow into multi-national, international or global corporations the student will be analyzing how RBC elects centralized versus decentralised (“local” versus “global”) creation and management of HRM policies, culture, mission, communication and HRM operating practices. This research will also be used by the Student for his thesis on governance by Board of Directors of their international subsidiaries.

TCS – May, 2007

University of St. Gallen
Doctoral Seminar - HRM Policies and Practices
Royal Bank of Canada Financial Group (RBC)
QUESTIONNAIRE:

1. Regarding the Culture of RBC Financial Group:

a) How would you describe the Culture of RBC?

There is a very strong overarching culture within RBC; however, there are many different subcultures, with each business and geography having its own distinct subculture. Above all, the culture of RBC is values-based and grounded in RBC's stated values.

The overarching culture can be described with the following phrases:

- High Performance
- Client-Focused
- Strives for excellence/best-in-class
- Welcomes and values diversity
- Collaborative

b) How does the culture differ from the competitors you monitor?

Externally, RBC is viewed as having a very professional culture in the marketplace. The company has been in existence for over a century and is a flag ship corporation in Canada. Clients consider RBC a trusted source and other corporations have awarded 'Most Respected Corporation in Canada' status to RBC (see external website for other awards and details). From an employment perspective, we have a very strong brand and are able to attract significant numbers of qualified applicants, especially in Canada. We are considered to be a welcoming environment, and are supportive of new people who join us.

2. What role does HRM Policies play in driving or supporting RBC in being recognised as the Best Company in Canada?

HRM Policies are the underpinning, the 'expression', of our principles and what we stand for as an employer. We have stated Employment Relationship Principles, grounded in our values (refer to the Corporate Social Responsibility publication for details). The HRM Policies align to our Employment Relationship principles. HRM Policies support RBC's position as a company by taking into account organizational goals, shareholder expectations and employee expectations.

3. What role and process does the Board of Directors utilize in developing, implementing and evaluating HRM Policies and strategies in RBC?

Board of Directors	Role & Processes used
Developing	- CEO selection, evaluation and reward processes and senior management reward processes and decisions. - Board approves top management positions - Board provides input to Compensation direction
Implementing	No role – this is a role of management. The exception to this is CEO selection, evaluation and reward processes and senior management reward processes and decisions.
Evaluating	The Board plays a pivotal role in evaluating and agreeing to overarching HRM Policies with respect to Compensation and Benefits, in addition to senior level Talent Management Also refer to the HRC Mandate at: http://www.rbc.com/governance/pdf/Human-Resources-Committee.pdf

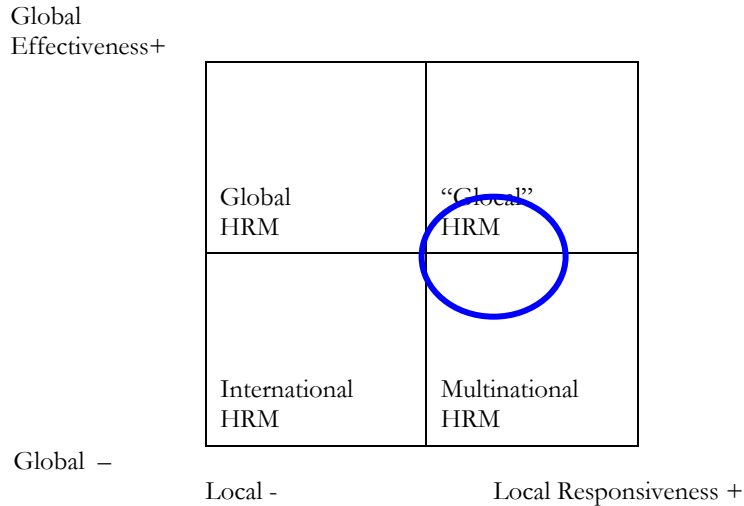
4. What role and process does the **CEO** (or the Executive Management Team) utilize in developing, implementing and evaluating HRM Policies and Strategies in RBC?

CEO / Management	Role & Processes used
Developing	Setting organizational strategy direction, which informs HR strategy direction. Providing input on overarching HR strategy and key policies that impact the long term health of the organization. Responsible for and plays an active role in Talent Development for the organization.
Implementing	Championing key themes and strategies as a visible, vocal sponsor. Utilizing policies and strategies in the management of the senior team, as an example of expectations of management regarding the rest of the organization. (e.g. goal setting, performance management, meritocratic reward for performance).
Evaluating	Alignment of HR strategy and policies with the organizational strategy and long term direction/health. For additional information, refer to the Mandate of the President and CEO: http://www.rbc.com/governance/pdf/Nixon-Mandate.pdf Additionally, the proxy circular will have additional information.

5. What role and processes does **Head of Human Resources** (or the HRM Executive Team) utilize in developing, implementing and evaluating HRM Policies and Strategies in RBC?

Head of HR / Team	Role & Processes used
Developing (Oversees)	Setting HR strategy direction and approves all HR policies, which informs HR program development. Providing input on overarching HR program development. Approves key program changes.
Implementing (Oversees)	Responsible for the implementation of all HR strategies and policies (which is monitored through the evaluating activities – see box below). Responsible for making any policy change recommendations to the CEO, HR Committee, and Board of Directors, for those policies which require Board or CEO approval. Holds responsibility for approval of strategies/policies which have been delegated to the CHRO from the Board of Directors and/or CEO. Responsible for and plays a direct role in Talent Management, Succession Management and Staffing for the organization’s leadership team. Championing key themes, strategies and programs as a visible, vocal sponsor. Provides guidance and direct support to the senior management team on how to utilize policies and strategies in the management of the organization’s senior team. Utilizing policies and strategies in the management of the senior HR team, as an example of expectations of management regarding the rest of the organization. (e.g. goal setting, performance management, meritocratic reward for performance)
Evaluating	Conducts governance responsibilities for policies and related programs. Monitors the People-related opportunities and risks on behalf of the organization. Monitors the People-related fiscal impact to the organization, including the direct cost of People-related programs (i.e. compensation and benefits).

6. **RBC is a dominant company in Canada but also operates in every continent around the world. Balancing Global Effectiveness with Local Responsiveness is always a challenge. Within the context of HRM, where would you place (circle) RBC on this grid?**



7. **Why have you answered as you have, in recognising the need for Global Effectiveness and Local Responsiveness?**

In some Geographic areas, RBC has implemented shared services models to achieve efficiencies of scope and scale. In other geographic regions, where our company does not have extensive business presence, local market approaches/servicing has been the primary approach to providing HR services. We continue to monitor the balance between local market need and global effectiveness as we address business need and strive for organizational effectiveness and efficiency.

8. **RBC operates in 34 countries around the globe. In balancing the need for common standards yet international relevance:**

- a) **What HRM policies are generated centrally and why?**

Compensation, Benefits, Employee Relations, Leadership Development, Talent Management, Performance Management principles and/or policies are generated centrally, all to align with RBC strategic direction, values and overarching employment relationship principles. HR policies provide the means for attracting, motivating, retaining and engaging talent and are central to our organizations ability to deliver to our clients. We also use HR policies to promote and preserve RBC values and culture.

- b) **What HRM policies are generated de-centrally and why?**

We do not have de-centralized generation of HRM policies/principles, however, we do have de-centralized development and implementation of HR programs and HR guidelines and implementation, to account for local market and regulatory environment needs.

9. How would you rate RBC in the following “Corporate Personality Profile Questionnaire”(© by M. Hilb):

Dimensions	1= non-existent; 5= highly developed				
	1	2	3	4	5
1. Mission / Strategy	-	-	-	-	-
a) Energy for Change					X
b) Soundly based risk Taking				X	
c) Quality standards				X	
d) Profit Orientation (& Cost Consciousness)					X
e) Customer Orientation				X	
f) Long Term Strategic Orientation					X
g) People Orientation				X	
h) Public image Orientation					X
2. Structure / Systems	-	-	-	-	-
a) Streamlined operations (Absence of bureaucracy)			X		
b) Decentralization (Note: Businesses are very decentralized; Support Groups are not)		X			
c) Simplicity of Organization Structure		X			
d) Shallow hierarchy (few management layers)				X	
f) Flexible Planning				X	
g) Participative Decision Making				X	
h) Effective Decision Implementation				X	
i) Constructive Controlling (The meaning of this is unclear)	-	-	-	-	-
3. Culture / People	-	-	-	-	-
a) Team Spirit Orientation				X	
b) Leadership by example				X	
c) Common Value system					X
d) Management by Objectives & Results				X	
e) Open Internal Communications				X	
f) Intuitive (in-tune) Management				X	
g) Approachability of Management					X
h) Recognition of Efforts				X	

10. Corporate Governance is a key responsibility of the Board. If not mentioned earlier, what HRM policies and practices are seen to be the most critical by the Board of Directors in its goal to achieve Corporate Governance across RBC?

See Mandate. (Appendix III)

11. The international subsidiaries of major multinational companies have been the source of breaches of governance. In recent history we have seen issues with Barings Brothers (Singapore), Parmalat (Cayman), AIG (Bermuda) and others. Are there any comments you would offer on how the Board of RBC utilizes HRM Policies and Practices in particular to address the need for governance of RBC’s international subsidiaries?

The Board uses HRM practices to ensure that RBC's culture of integrity applies worldwide through its role in reviewing and monitoring RBC's values and Code of Conduct, and its review and management of senior talent in the organization. Additionally, the Board monitors RBC's global Code of Conduct training and testing activities to ensure that all RBC employees worldwide have an in depth understanding of the organization's expectations for honest and ethical behaviour. Code of Conduct amendments are approved by the Conduct Review and Risk Policy Committee of the Board, and the Code itself is reviewed and approved annually by the Board's Human Resources Committee. The Board also adopts the Code annually (except for the Conflict of Interest section).

12. Are there any other comments you might offer that this survey has not addressed that you feel are critical for the Seminar’s understanding of RBC and in particular how RBC utilizes and leverages HRM policies and practices in achieving “Best Company” status amongst its peer group and in governing its huge multinational network?

HRM policies and practices are a management tool used by RBC to attract, motivate, retain and engage talent. Used effectively, these tools enable governance by bringing the appropriate talent into the organization, setting goals for the talent to focus on the appropriate work and rewarding them effectively for appropriate results and behaviours.

Appendix III: Interview – Mr Morten Friis – Chief Risk Officer, RBC

To: Mr. Morten Friis
Chief Risk Officer
RBC Financial Group
Toronto, Canada

Dear Mr Friis,

Thank you for agreeing to speak with me in support of my Doctoral Seminar on Corporate Governance. Let me first mention that your responses will be kept in strictest confidence and will only be used for academic discussions, research and analysis.

To understand the purpose of this assignment and the insights I am seeking to obtain from you as the Chief Risk Officer of RBC, please see the outline below.

Attached are the responses I recorded from our interview on Thursday Nov 8th. The interview was conducted by telephone from 10:15 to 11:45 EST.

If you have any questions please feel free to contact me directly. Thank you again.

Regards,
Tom Sears
St Gallen Student id: 06612311 (Studierende HSG)

=====
Background:

In this Doctoral Seminar, students have been asked to select a country and a “best company” in that country to analyze their Corporate Governance practices. Student Tom Sears has selected RBC Financial Group (Royal Bank of Canada or “RBC”) in Canada.

For this assignment, students will analyze how the Board of a “best company” operates. In following the Hilb model of Corporate Governance. Of particular interest will be an understanding how the Board works to be:

- H) Situational (Company size, industry, internal/external considerations)
- I) Strategic (Board Size, Culture, Diversified/Roles, Measures)
- J) Integrated (Board Selection, Feedback, Remuneration) and
- K) Controlled (Auditing, **Risk Management**, Communications, Evaluation)

Secondly, as modern companies grow into multi-national, international or global corporations the student will be analyzing how RBC oversees their international subsidiaries and in particular securities trading subsidiaries.

This research will also be used by the Student for his thesis on governance by Board of Directors of their international subsidiaries.

TCS – October, 2007

1. Governance of International Subsidiaries

There are many famous cases in business history of fraud or other inappropriate behaviour occurring, involving the use of a company held subsidiary. Enron's use of SPV's, Parmalat's use of its subsidiary in Cayman to misrepresent its financial statements, AIG's and Gen Re's use of their subsidiaries in Bermuda and Ireland respectively to manipulate financial results are just a few. What has RBC learned from these cases and what Risk Management processes ensure appropriate operations and governance within RBC subsidiaries?

Ensuring Governance in our subsidiaries though our risk management practices is a key challenge for Management. These are good illustrations of risk and how things can go wrong. Also we know that the Risk and Control environment of a company differs the further away from the "Mother Ship" one moves. Both Enron and World Com, served as important examples to everyone on the need to manage risks better. But even in these extreme examples, these were not "unique" risks.

What we have learned from these acclaimed cases is that it is critical for both subsidiaries and the main company to have the appropriate level of controls in all business operations, whether they are in Canada, the USA, the Caribbean, the Channel Islands or Switzerland. Key to success is having the right infrastructure locally, and the appropriate links to the Parent Company for Risk Management policies, Governance practices as well as common standards of operation. To avoid unintended consequences subsidiaries need common practices on governance and other disciplines such as operational, tax and audit standards.

With these principles in mind, RBC manages Risk first on an Enterprise wide basis. Here we examine all Risks to the corporation and define what influence we and Management can bring to bear in mitigating Risk. As a communication tool, RBC uses the "Risk Pyramid" (See pg 72 of RBC's 2006 Annual Report).



We use this tool to present risk to our Board, our Management Committee and all of RBC employees around the world. We then establish enterprise wide standards or objectives followed by operating initiatives. Within RBC Global Risk Management we have 1200 employees globally, who serve as our eyes and ears as well as our ambassadors to business functions, geographies and subsidiaries. These employees become expert in their unique fields and geographies and often sit as members of the management teams of the business units they serve. In RBC's current matrix business environment, we often see several Risk Management colleagues all looking at the same business from different perspectives. For example the business risk specialist for Private Banking would also obtain help from risk specialists for technology and credit to name a few, all working toward the same "enterprise wide standards" but in their specialist areas of expertise.

With the enterprise wide standards set, we then ensure that the local control environment is appropriate. This can be a challenge for smaller subsidiaries where smaller staff groups find that a single person might have multiple responsibilities, such as Risk Management, Compliance and Administration. I call these our "Swiss Army Knife people". In these cases and in these subsidiaries the key challenge is adequate separation of duties. As we know, this was a failing in many of the famous case you reference, and most notably the Baring Brothers case where Nick Leeson also controlled the "back office".

In all subsidiaries, we rely very heavily on our visiting audit team to ensure proper segregation of duties. Audit teams perform a key role for our Risk, Governance and Board mandates across our company and subsidiaries. Also very recently all of our units became liable to the requirements of Sarbanes Oxley which maps business processes and examines these for these adequate controls including separation of duties. These are very helpful processes for us and our Board. The risk team actively reviews every Internal Audit and SOX report and we provide our views through our risk management colleagues across the network as needed.

Another key initiative is the active review and approval of all new Products and Initiatives. With the endorsement of the Board, our Risk Management function must sign off on all new material products and initiatives. That allows us to proactively perform a robust review of risks and returns on all new initiatives for the Board and eliminate problems before they occur. Before any product goes live we also evaluate the subsidiaries intended for these new initiatives and explore the capability, processes, segregation of duties and abilities of the subsidiary to accept, control and monitor each new initiative.

It is also important that we are continually improving our processes and our team and ensuring each of our 1200 colleagues are working toward common objectives. For example, while we have a comprehensive 26 page Operational Plan, the headline priorities we have crafted for 2008 are:

RBC Group Risk Management 2008 Priorities

- Client First Mindset
- Maintain the risk profile and actively manage risks for RBC
- Cost-effective management of Group Risk Management
- Risk Governance – Internal & External communication, reporting and relationships
- Leadership and talent management

These are our mechanisms to actively support, evaluate and communicate to all of our businesses, but in particular to our international subsidiaries. We know it is not a perfect solution and we are constantly evolving our processes and practices.

2. Board Education of Risks

Under the risk-focused Basel II rules, a bank's directors must have detailed knowledge of the operational risk factors within the organisation. What steps does RBC take to give directors detailed knowledge of these risks?

RBC's Board takes an active interest in understanding the various Risks of our businesses. Firstly, our Group Risk Management Team works closely with the Board's Conduct Review and Risk Committee, which is made up of 7 of the 17 Board Directors. We meet regularly and discuss detailed operating and on-going issues and create initiatives and action plans as a result of that active Committee.

As mentioned previously, on a regular basis we make presentations to the Board on current business issues and in so doing educate the Board on risk exposures.

On Basel II, we have held dedicated educational sessions to provide the Board with a full explanation of the new rules for Directors and Corporations, and the impact on Operations, Capital, Governance and the business environment.

As our Chairman mentions in our 2006 annual report (pg 13) we also conduct regular educational sessions for our Board members as needed. The sessions may for include tedious but critically important changes to "accounting principles" or could be addressing the latest leading edge financial instruments in our capital markets areas. The Board follows these diligently. In these sessions we outline the risks as we see them, what techniques we apply to address or mitigate the risks, and how these risks apply enterprise-wide, across our 42 business units.

Additionally each year we organise a full day offsite dedicated to educating the Board on Risk Management issues where we present our Risk Profiles, our Risk Framework and review each of our individual businesses. Particular focus is made on our fastest growth areas and our areas of highest risk, explaining how the business operates and the processes we have in place to manage the risk.

3. Investment and Securities Trading

Similar to the previous question, many famous cases involved "rogue traders", including Nick Leeson at Baring Brothers Singapore (1996), Credit Agricole (2007) in their New York office, National Australia Bank's (2004) foreign currency trader David Bullen in London, Allied Irish Bank's (2002) foreign exchange trader John Rusnak in Baltimore, and Bank of Montreal (2007) energy options traders in New York, China's State Reserve Bureau (SRB - Beijing's 2005) copper trader Liu Qibing in London, and Sumitomo Bank's (1996) copper trader Yasuo Hamanaka, are a few. With the controls Banks have in place, how do these breaches

generally occur? What has RBC learned from these cases and what Risk Management processes ensure appropriate operations and governance within RBC subsidiaries?

These are very interesting examples all institutions need to learn from. First let's recognize that an organization cannot completely defend itself against someone determined to commit fraud. Secondly, in each of the examples given, the control framework broke down. In Barings for example, the segregation of duties wasn't operating. In the NAB example, there were inadequate processes between London and Sydney. In AIB a single employee was allowed too many powers. In the Bank of Montreal example the process broke down due to collusion. While we feel RBC has good control processes in place, whenever one of these events hits the press we always review our own processes again. For example, when the Bank of Montreal problems were announced, RBC spent a considerable amount of time analyzing "How did that happen?" and "What can we learn from this?" Then we presented to the Risk and Senior Management Committees as well as the full Board. These examples demonstrate to everyone that organizations are only as good as the people and the processes in place.

Organizations are all the more vulnerable in their subsidiaries and especially in the foreign operations. This is where our enterprise-wide Risk Management focus must be all the more effective in local operations. For example, RBC's Code of Conduct is a particularly valuable tool to educate every employee around the world about fraud and other misdeeds and to put the onus on each employee to safeguard RBC's reputation and franchise around the world. Also our international subsidiaries all have Boards. While these subsidiaries may differ in size and complexity and that might affect their Board make-up, all of these Boards have responsibility for governance of their individual companies. RBC's Subsidiary Governance office has issued educational and operating manuals to all Subsidiary Boards to ensure every Director knows his or her obligations at the Subsidiary level and all subsidiaries are operating to RBC's standards for Board operations.

Lastly the single most important thing we do to mitigate risk is hiring of the right people. We must ensure we understand the integrity of the people we hire and ensure they continue to be committed to RBC's Values and Vision. The processes we put in place are equally important, but anyone determined to commit fraud will look for ways around even our strongest control processes.

4. Motivation for Fraud

From your perspective, when frauds do take place what do you feel is the motive for committing the fraud?

It is usually a combination of Greed and Error. For example, many financial industries around the world offer variable compensation programs that reward the employee based on what they generate. This "eat what you kill" model motivates the employee to be a high performer. While effective, this carries risks. More current models, as those in RBC pool the earnings and rewards into team rewards, but even these pools have weaknesses. All this encourages the "greed" factor.

ALL organizations from time to time experience errors. Errors in the "eat what you kill" environment directly affect your pay. Also egos and personal reputations can create pressures to perform. Some "big man on campus" may do a deal they ought not to do. For greed or ego, traders in these markets can be motivated to make an error and then pressured to try and undo their error without Management being aware the error was ever made. Nick Leeson was the ultimate case. Leeson kept "doubling his bet" on the copper market to try to erase a negative position he created in one bad trade decision. The market kept moving away from him and Leeson kept doubling his bet, until Barings ultimately crumbled. Interestingly in Barings head office his bosses were enjoying record profits and record personal bonuses, so they were also not motivated to discourage Leeson's activities.

Still we have to pay market type compensation to compete in these industries and attract the best and brightest individuals. This is a dilemma for organizations.

In RBC we have moved toward Pooled Bonus plans and have introduced deferred compensation as well, to take pressure off individuals and to encourage longer term thinking. Spreading out of compensation year-over-year also allows Management to see how these deals play out over the medium term before the compensation is fully paid. Also, at the more senior levels we tie compensation to RBC stock, to ensure the executives responsible are looking enterprise-wide, when they make day-to-day decisions.

5. Fraud in RBC

Are there any breaches in RBC's history that have served as valuable learning tools? What were the conditions that allowed them to happen? What was learned? What did RBC do?

While RBC has never had a "\$100 million disaster" like the cases you mention, RBC is not immune to problems. We have had "one-offs" like insider trading scandals, an investment advisor defrauding his clients, or other issues. We even acquired an issue when we bought Greenwich Natwest trading team only to discover that three of their senior people were key traders for the Enron debacle. In every case the employees were dismissed the day we learned of the frauds. Then the legal process was started in parallel to a review process, identical to the approach mentioned earlier. Changes are made if we discover gaps in any process or training. While we feel RBC has better control processes and a better culture than most companies with RBC's "Code of Conduct", I feel we also have better stress testing of our business risks. For example, in the current Merrill Lynch sub prime issues, do you think their board of Directors realized they held an \$8 BILLION exposure? I doubt it. Their stress testing was absent on that one.

RBC works hard at our stress testing and if we have a \$10-50 million risk we can discuss it and if approved, the Board is clearly aware of the risk exposure and has accepted that position with eyes wide open. If there is any gap beyond that, it is a gap in Management and that's why we have Group Risk Management, which I head up examining and verifying all of RBC's key risks. That's how we do it.

End of Interview

Appendix IV: Interview – Mr Antonio Vianna – VP Latin America, RBC

St Gallen University – Doctorate in International Business Programme

Interview by: Tom Sears (TCS)
Subject: Antonio Vianna (RBC)
Date: Nov 23, 2007
Time: 10:30 – 11:45 am

Subjects of Discussion:

- 1) Management in North and South America
- 2) Corporate Governance of International Securities Trading Subsidiaries

Background of Interviewee:

Name: Antonio Vianna

Nationality: Brazilian (by birth); now also holds Canadian citizenship

Title: Vice President & Director, International Wealth Management
Wealth Management Division, Royal Bank of Canada (RBC)

Corporate Responsibilities:

- 1) Regional: Latin America
- 2) Business: Full Service Securities Brokerage

Geographic Responsibilities:

- 1) Latin America:
 - a. Brazil
 - b. Argentina
 - c. Chile
 - d. Mexico
 - e. Panama
 - f. Uruguay
 - g. Venezuela
- 2) USA (New York, Miami)
- 3) Canada (Montreal, Toronto, Vancouver)
- 4) Caribbean (Cayman, Bahamas)
- 5) Hong Kong

QUESTIONS & RESPONSES:

TCS: RBC is a large Canadian company. You are RBC's executive responsible for running many of RBC's Latin American offices. North American firms doing business in South America face numerous cultural and management challenges? What advice would you give to a North American firm thinking about doing business either in, or closely aligned with, Latin American countries?

RBC: This is a most important question. Many, and especially American companies, view South America as “a single whole”. They often mistakenly try to treat Latin America as a single homogeneous Spanish region. While South America is a single piece of geography, each country is quite different and you need to address each country on a separate basis.

To start, it's helpful to understand the historical significance of the “Tordesillas line” in understanding the history and cultural development of the Region. (Actually called the “Line of Demarcation” formed by the Treaty of Tordesillas signed in 1493 by Pope Alexander VI which divided South America North – to –South, with Portugal having rights on the East side of the line and Spain on the West side). The implications of that decision drove the development of the continent in very different directions. Centuries later we see marked differences in race, language and culture throughout South America with Brazil speaking Portuguese and culturally comprised on Portuguese, African and indigenous first people while the West of South America speaks Spanish and has roots in European as well as the indigenous peoples. Because of language familiarity, the Spanish speaking countries of Argentina, Chile, and Uruguay have evolved stronger commercial ties within the continent while Brazil has developed relatively stronger commercial ties outside of the continent.

There are many other differences, but the key point is this - North American management cannot enter Latin America with a “cookie cutter” approach to these countries. Management needs to be aware of and sensitive to these cultural differences in order to be successful.

TCS: If you were talking to a North American, how would you describe the differences between the Latin American countries of Brazil, Argentina, Chile and Mexico for example?

RBC:

Brazil:

A positive culture; very optimistic people; a little on the emotional side; Like many South American countries, Brazil got into hyper inflation (80% per month). As a result, Brazil developed one of the most highly efficient financial and banking systems in the world. Brazil is high on technology. Before oil, Brazil had to develop its own trade patterns by being entrepreneurial, and that drove culture. Brazil trades more outside of the continent and we can see a heavier American influence in Brazil as a result, with McDonald's, and Block Buster and other American retailers having developed relationships in Brazil. Brazil's need to forge relationships out side of the region reinforced their entrepreneurial spirit, their flexibility and compromise.

Chile:

Chile is an interesting study driven by their cultural heritage as well as the influx of Europeans after WWII, and the isolation caused by the Andes Mountains. The people of Chile tend to be more Germanic in their approach, much more structured and disciplined. Perhaps this is a result of the dictatorships they have experienced. Chileans do not show the “mañana” effect to the same degrees as other Latin countries. They are stricter in their approach to processes and good business people. These attributes has made Chile attractive to Canada, the US and Europe and that is evidenced through their involvement with NAFTA and MERCOSUR trade ties.

Argentina:

Quite optimistic, but not as strong as Brazil; Also seriously affected by hyper inflation in the past; more inclined to have the “mañana” effect; issues of corruption in government, slower to make decisions and less entrepreneurial for business;

Mexico:

Enormous influence from the USA; more trained than any other Latin American country in American methodology and culture; Unlike Brazil, Mexico did not have to create its own culture; Mexico has oil which drives some financial independence.

TCS: Would you say that RBC has been successful in Latin America

RBC: Yes, I would say that RBC has been very successful in Latin America. Although RBC is Canadian and North American company, with historic ties that connect into Europe, RBC has been involved in this region for nearly 100 years. And in the last 5 years or so RBC has really concentrated on building the important wealth management platform (that I oversee) in the region. In my own business for example, we had little to no presence 5 years ago, but today our Revenues are quite material and over (“6 figures”- number withheld on request for confidentiality reasons).

As well RBC is very highly regarded in the region and has received high ratings from clients and officials. I refer specifically to Euro Money’s publication (* attached) on Latin America where RBC is ranked in the Top 10 in most categories and more often in the Top 5 in key service attributes, as seen by clients and investors in the region.

TCS: Being the largest financial institution in Canada and heavily engrained in North America, how has Management in RBC approached Latin America to be so successful?

RBC: RBC’s Management has recognized several key ingredients for success.

1. **Leadership.** I run the division and I was born in Brazil. I was later educated in Canada and so I have the language and cultural affiliations of Latin America as well as a close understanding of Canada and RBC’s operating standards. Most US firms hire Americans for the senior roles and Europeans might hire a Spaniard. Having been born in and raised in Latin America, employees, clients and government officials relate well to me, more so than say someone born in Europe or North America. I am fully fluent in the languages and the cultures. I see this as a key differentiator in how RBC has approached this region.
2. **RBC’s practice is to recruit in the region - clients can relate to our employees.** Following this policy, 99% of our team is from the region. They are trained in understanding RBC’s needs for governance and are able to convince our local clients that the higher operational and governance guidelines we follow are in fact “good” for the client. So in the end we operate at RBC’s highest standard of global operations and use our local staff to translate as needed to clients. That’s one of the mechanisms we use to ensure we get the best of both worlds.
3. **Confidence at Head Office is critical.** Obtaining great local advisors is critical in RBC’s global strategy. But similarly it is critical that those advisors are trusted by our Head Office staff. For example, in every jurisdiction we need local legal counsel. I don’t choose them. Instead I ask RBC’s Law department to go into that country and interview and select the legal advisor. “They” establish RBC’s standards and language in the legal area. They set up a rapport. Then I suggest that the Law department (in this case) periodically visit their counterparties to stay current on local standards and development. That way, when business issues come up our Head Office functional teams have their own contacts and they can translate the issues into terms they understand. This really works well.
4. **Governance through great Risk Management.** Here is an important factor for our Bank. RBC follows an enterprise wide Risk Management strategy. But our units are thousands of miles away from Canada. What we do is hire the Risk Managers locally. They work right on the ground in our Latin American offices, but we train them to operate that the “enterprise wide” level of performance. They do not report to our local management, but to a regional and head office Risk Management functional role and that allows for complete independence. Again that allows for local responsibility but our units operate at RBC’s global standard.
5. **Good people and great training makes the difference.** We are very selective in the people we hire. In part because we are offering products and services to a wealthy segment of the client population, we need smart, bright and client friendly people. As well they need to be well educated and then trained in the standards set by our global head. For example, if RBC’s global standard to be a Manager is two years of experience, we follow that in our Latin American units. Similarly if in Canada our representatives need to be certified to deal in futures or derivative products, we insist that our Latin American staff achieve the same standards of certification even though it might not be required in their local market. That does drive the quality of our employee skill set, makes the clients feel good and satisfies our auditors and risk managers that we are operating at RBC’s highest standards for qualification.
6. **Lastly let me say that part of RBC’s success is that as a Canadian firm, Canada is a very unique country in the way it accepts and utilizes diversity.** That tolerance to different cultures does two things: First, again using me as an example, I am a Canadian citizen but was born in Brazil. There are many people in Canada from different countries who are completely comfortable working in Latin America and would be

easily accepted by and understand the Latino culture and histories. Secondly, Canada's openness to other cultures makes most every Canadian and Canadian companies like RBC aware of the differences that exist and open to "listening and learning" before making assumptions and going forward. This last attribute is most important for our company's success in Latin America.

TCS: Have you had to adapt anything to be successful in your Latin American markets?

RBC: Great Question! You cannot expect good products to just sell. Remember when Disney went to Paris – they didn't understand why their "cokes and onion rings" were not selling? After some time they introduce local favorites like wine and croissants and they took off. Similarly you might be surprised to find that at the local McDonalds in Brazil the use of salt is much higher than in Canada and the USA and the recipes have been changed to include among other things, more spicy flavors. To be successful you have to ensure that your products are meeting the needs of the population. You cannot assume that North American products will also work in Latin America.

My group provides Wealth Management services. We help wealthy people and families around the world with their financial needs. In most cases, and notably in Canada and the USA, we use Trusts as the lead "product" for discussion. Trusts are great and quite well understood in North America. They allow for estate planning, investment management and there can be many tax benefits as well. (RBC is huge in this business around the world – interviewer). However trusts require the "investor" to give up ownership of their assets and allow the trustee (bank) "discretion" on how the wealth will be managed.

Giving up ownership or control over their assets is not an acceptable condition for Latin Americans. Most Latin American clients have a strong interest and in fact a need to be actively involved with their investments. I personally feel this stems from the days of hyper inflation when investors felt the need to immediately liquidate or to pop in and out of the market as they felt things changed. Latin Americans are very active investors, so trusts do not work. Instead we offer brokerage accounts, where we recommend choices to clients and the client decides and provides approval. This is a better cultural fit.

Secondly, our clients are familiar with investment opportunities that our global teams in Canada, New York, London and Tokyo are not familiar with. Embraer would be a great example. But RBC has strict guidelines on what we can recommend to our clients, so I have had to develop a local investment Advisory Board to work with RBC's global investment analysts and we develop investment recommendations specific to the Latin American market – investment that our clients would know, would be interested in owning and would be following in their local press. Our clients love it. We have also learned to allow certain deviations from our global norms, within reason that we monitor closely. A client can go overweight in a sector or a stock, can custom design their portfolio to some degree, can liquidate when they get uncomfortable and can go into emerging market investments that they like and know. These variations are unique in RBC as that is what our Latin American clients want.

TCS: We are reading about cultural stereotyping in different countries. RBC seems to operate at global standards. Do you experience the mañana effect or other cultural differences from the North American norm and how do you deal with it?

RBC: Cultural stereotyping does exist. For example there are German mannerisms in Chile and the mañana attitudes in México. In my career I am seeing those influences diminish, especially in the major centres. The people we hire are very well educated and often have been educated, even for one term, in Canada or the USA. They are aware of RBC's global service standards and the specific needs of our clients and they are able to successfully provide top service to our clients.

For example, in some cultures small errors may be tolerated. However our employees know that our clients expect 100% accuracy on their money. Our employees have to operate at a global standard of operational efficiency and accuracy. While RBC is proud to be in Latin America and our employees around the world and certainly in Latin America are encouraged to celebrate our various cultures, but at work we have to operate at the highest of global standards. Our employees know this and do not seem to have any difficulties in accepting this duality in their lives.

TCS: One of the other comments in our reading pertains to corruption and Argentina in particular was mentioned. Do you encounter corruption and with RBC's high standard for ethics and governance how do you deal with it?

RBC: Corruption does exist. This is a MAJOR problem in South America and throughout all of Latin America. This stems back to the days when the State ran everything from developing roads, to running hospitals and operating the pension systems. There were huge inefficiencies and waste. When someone needed something done quickly, a little something "under the table" got things done. Sadly this practice did permeate throughout the region and has taken credibility away from everything good that goes on in the Region. For example, there is no credibility in the pension systems in Brazil and Argentina.

From my experience this has diminished substantially and for the most part is not the case in private companies today. Private companies try to avoid the corruption system and RBC has very strict policies against corruption (in our Code of Conduct) for example. It still does exist and seems to be settled in government. In the meantime, government has recognized this as a weakness and has started to privatize many establishments like pension systems in Chile (100% privatized) and Brazil (50% privatized) to reduce this practice, but there's still some way to go.

Another good example is Embraer, we mentioned earlier. They were at one time completely government owned and were in terrible shape. Since they have been privatized they became a global success story, in part to their private ownership. CVRD, the mining company, has also improved its commercial fortunes as a result of moving away from government involvement.

The corruption issues still plagues industries like telecommunications that need licensing and cooperation from the government, but in general I feel this is not an issue with Central Banks or Regulators and is becoming less of an issue rather than larger.

Fortunately for us, we deal with private clients and corruption does not affect our business but we are affected due to the perception that corruption as a criminal activity is thought to be systemic throughout the region. RBC is very strict on this issue. For example, I heard about some executives who were being paid their bonuses into offshore accounts. They said they felt their pension money would disappear so they socked money away offshore. Then a big European bank bought the company. Once discovered the new owner stopped the practice. RBC would take that approach as well if we found such a practice close to any of our businesses. We have to operate at the highest global standard. Our 300 employees in the region know our view on this through our Code of Conduct.

TCS: Have you been able to take some of your learning's back into RBC, back in to Canada, that has affected the way Management in Canada run the global business?

RBC: Absolutely. Firstly, we have a business model that establishes enterprise-wide ethics, values and standards (RBC's "Vision & Values", RBC's "Code of Conduct") that all RBC units and employees around the world must recognize and implement. Our business model allows for regional specialization where needed, such as our investment committees I referred to earlier. We have the ability to make a recommendation like this that allows us the ability to be unique and to meet local needs.

Secondly, as the executive for this region and I am the voice of Latin America in all of my meetings and discussion with my Canadian counterparts and other RBC global business leaders. I can say "that won't work in Argentina" for example and in so doing I am educating my global colleagues on the cultural implications of doing business in Latin American countries. They learn and the incorporate these considerations when making global policies.

TCS: You provide brokerage and securities services to you many clients in Latin America. I would like to focus a bit now on the notion of governance of the securities trading business and in particular how you and RBC prepare yourselves against rogue traders or other forms of fraud that might take place in the securities business or in a foreign subsidiary of RBC. What have you done to minimize these threats to your business?

RBC: A very important question for me and for RBC. We do many different things:

First we have a Compliance Officer in every single subsidiary. That officer does not report up to me but to a different executive in RBC and is compensated on a unique basis than the office they are responsible for. That person is responsible to oversee all trades and the way we are conducting out business is in accordance with RBC's standards. They are to monitor for unusual activity, unusual trends, or unauthorized trading. They have the

obligation to report anything outside of the ordinary and to ensure that our people understand and all processes are compliant. All of our employees are aware of the Compliance Officer's role, so if anyone does have the ambition to be deceptive they will have to take our Compliance officer into account.

Secondly, RBC has developed on-line trading technology for the globe. It is highly advanced and is the same system in all locations. We use this system as a method of "surveillance". It is conducted centrally in Canada for all trades. This supplements the human effort performed by our local Compliance Officers. The system checks for many things like insider trading, hyper activity on an account, hyper activity on a particular security, traders who may be trading beyond their limits, or other irregularities. This is an on-line system so we can flag an issue within 5 minutes of it occurring, often in time to reverse or minimize and error. This technology is quite important in our effort to combat crime and fraud.

Thirdly, this central technology is tied to our centralized "Back Office" operations for trade processing a settlement. This is the crucial "separation of duties" that Barings missed in the famous Nick Leeson case. This back office is also in Canada for all of our operations and managed by a separate group of my colleagues who do not report to me.

Fourthly, all managers are required to review every trader's trades from the day before and to sign off as a second set of eyes as well as a peer review. They also look for what we call "suitability" of the trade for that client. To help managers, our technology produces the reports under what we call the "Supervisor's Tool Kit". So our local managers work in conjunction with our local Compliance Officers, our central surveillance system and our segregated back office to make sure we are managing our people and processes carefully.

Further, we have very high training standards for all managers and employees that are common across our global network. Although it may not be necessary to have a particular course to trade derivatives or futures in our regions, for example, in our global business we do have this standard and insist our employees pass these Canadian based exams from the Investment Dealer's Association of Canada before we let them talk to clients and make recommendations. That's important because all of our employees, regardless of where the work are made aware of the things we do not allow, like "Front Running", "Bucketing" and "Suitability" issues. They are also aware that WE are aware of these issues too and we are checking for these behaviours. Through training, we minimize any chance for misunderstanding with our traders.

When we have any concern about an employee, we follow up right away. We might request a trader to re-write an exam, to satisfy ourselves that they have the skills needed for the job. We also have the right to penalize our employee for behaviors we feel are not in the client or RBC's best interest. In the worst cases, we can suspend someone license. From my experience, all of these "penalty" situations eventually become known internally within the employee grapevine and that's not the reputation any trader wants.

Lastly, we have periodic checks on every trader's activity. These mini audits are performed by our Compliance people, "after the fact" to review the client files and just double-check that all of our other controls and checks and balances have worked effectively. If anything is found we can modify our processes at the Manager, Compliance Officer, technology, training or back office level.

TCS: Have you experienced any inappropriate trading and if so what have you learned from it?

RBC: In my 15 years of involvement in this business for RBC we have had what I would call minor client issues. These usually involve a training issue or some communication issue between the trader and the client. These are always important discussions and earning opportunities for us and the client.

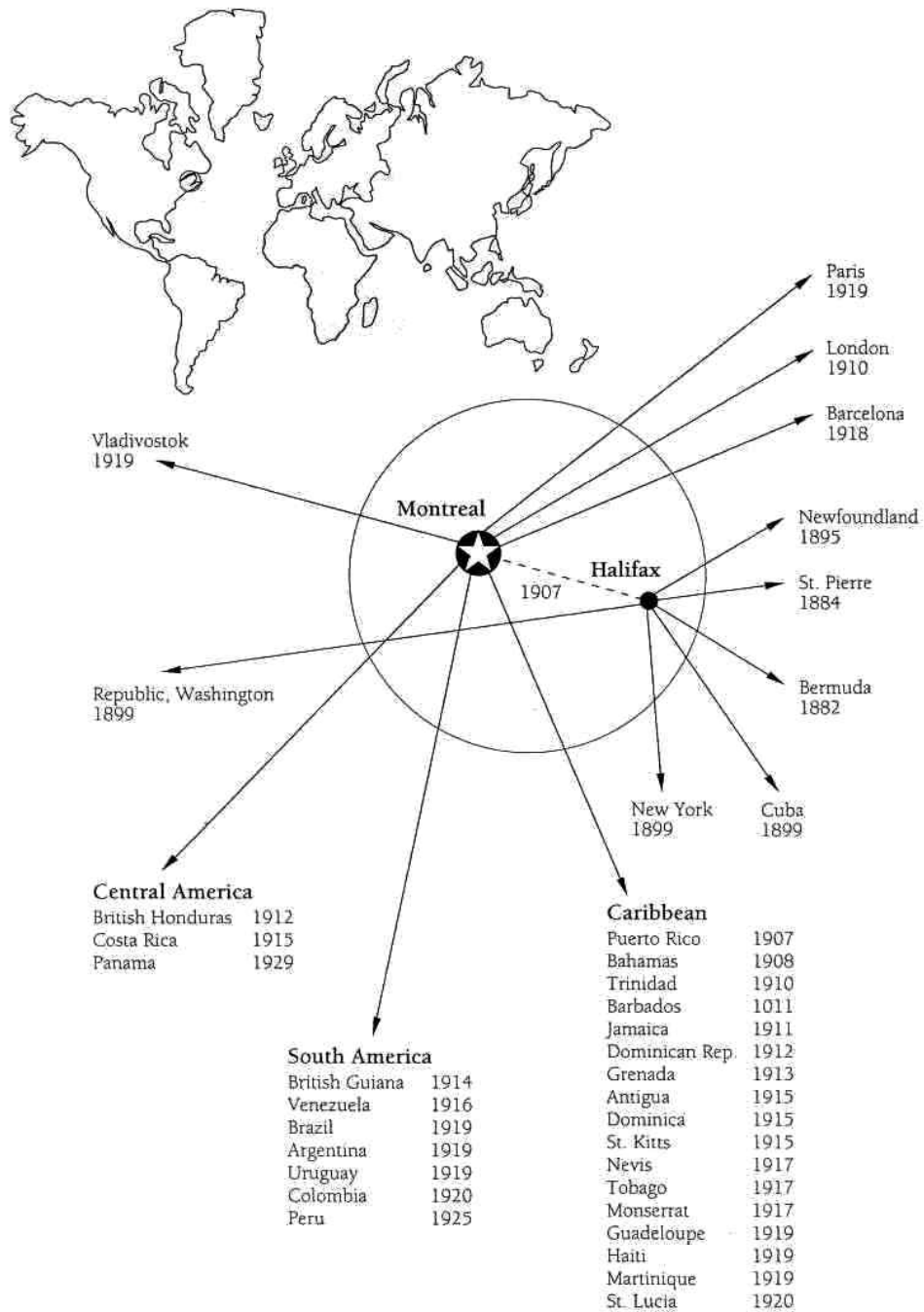
But in my 15 years we have never had any serious issues of rogue trading or other fraudulent activity. May that long continue!

END of Interview

Appendix V

RBC Expansion into Latin America 1882 – 1930*

**EXPORT BANKING:
ROYAL BANK BRANCHES ABROAD 1882-1930**



*Source: "Quick to the Frontier – Royal Bank of Canada", pg 196