Individual Case Study

The Royal Bank of Canada in Thailand was excited to begin operations in a new country. This country was Thailand and the potential banking operations and profits could significantly help the company. Everyone that is even remotely business savvy knows that expanding a current business in a new market is a risky and bold move. It requires careful strategic planning, significant capital, and the motivation to follow through with it. Persistence and work ethic of the new hires is something that doesn’t just appear. A special team needs to be put together in order for business operations to succeed in a new market. This leads the Royal Bank of Canada to step back and deeply evaluates the reasons for this new business venture. The risks have to be carefully assessed in order to achieve their potential growth and profits.

The first question that the Royal Bank of Canada had to ask themselves and each other was “what were the ultimate goals that opening a representative office in Thailand would ultimately accomplish?”. The reason that the Royal Bank of Canada wanted to begin operation in Thailand was to expand their market in the Asia Pacific market. They didn’t currently have any brick and mortar operations in the country of Thailand. This new opportunity presented itself with the growing economy of Thailand and the Royal Bank of Canada wanted to be part of the growth. Starting operations in Thailand would expand their already large banking company and possibly provide continued growth. By obtaining a spot in Thailand with a representative office, they could have their foot in the door and eventually obtain a full branch license that will enable them to have a full array of banking services to offer to the Thai population and others aboard. It wasn’t guaranteed that the Royal Bank of Canada would eventually obtain a full branch license, but at the time, the rewards outweighed the risks involved.

Due to the fact that they were beginning a new representative office in Thailand, the Royal Bank of Canada had to carefully plan the setup of the newly acquired storefront. How many employees would they hire? Where would they hire the employees from? What skills did they need to have? How much would they actually pay these employees to work at the representative office? What would the pretax profit of this new storefront be? Would the net present value of this new business venture be positive and by how much? After extensive planning and thorough analysis, the Royal Bank of Canada realized that they would initially hire five employees to work in their Thailand representative office. The manager had to be from within the network of the Royal Bank of Canada. Every other employee was going to be hired locally in order to have insight on the customers and maintain a strong client base. Hiring employees that were from Thailand would be a great move because they could actually relate to the local clients. Besides the language barrier that the Canadians had with the Thai people, the cultural barrier could be even more detrimental to the success of their customer relations. Different countries have different hand gestures and facial expressions when negotiating business deals. It would be unfortunate if a Thai client backed out of a business deal when a simple hand gesture or even facial expression meant something different in their culture. This was part of the reasoning behind hiring educated locals that could be trained to performed the needed tasks and services. In regards to corporate taxation, RBC projected a pre-tax profit of $595,000 for year one and $1,550,000 by the end of year five. This is clearly shown in the case study document. Whether or not this is an accurate estimate, it is the best estimate that they have come up with and it is a sizable profit for a small operation. With less than 10 employees providing their services and the initial training that is involved with the local employees, a first year profit of $595,000 is welcomed. The case study does not say if they are paying for the flights that the new employees have to in order to receive their training. It does not state if they are covering the housing fees while the 5 employees are being trained in Canada. Regardless if they are covering the costs or not, the employees are being trained and they will eventually create significant profits for the company.

Another factor that the Royal Bank of Canada had to keep in mind for potential profitability was identifying the major business lines in the Asian Pacific sector. RBC’s four major business lines in the Asia pacific network are Financial institutions and Trade, multinational lending, treasury services, and global private banking. Multinational lending involves other countries that want to borrow funds from the Royal Bank of Canada in Thailand. The global private banking services enables private investors, institutions, and governments to have their funds in the bank of Thailand.

Another risk that the Royal Bank of Canada had to endure was the BIBF limitations that existed for the businesses in Thailand. The limitations of the BIBF hindered banks from engaging in onshore lending. They were permitted to extend loans both in Thailand and abroad, however, the funds would have to originate from abroad. This could hinder their ability to have funds enter locally but it would increase their international exposure. The country of Thailand is small and could use additional external capital that came from outside sources. Also, foreign banks could only have a single office. They were also prohibited from engaging in certain trade business involving Thai Goods and Services such as: issuance of letters of credit, and/or dealing in local currency. This is a huge setback for the Royal Bank of Canada that would place limitations on the freedom of the banking business. These limitations would impose restrictions on the way this business could do business and the way that it profits. It would affect the actually profits of this banking branch and maybe even create a deficit. These were all factors that the Royal Bank of Canada had to realize in order to make the best current decision for the business.

In addition to the BIBF restrictions that were put forth in Thailand, the Royal Bank of Canada had to weigh in the advantages of possibly upgrading RBC’s operations to a full branch status. If this Thailand branch of the Royal Bank of Canada was promoted to branch status, RBC would be able to engage in a broader range of business functions including on-shore lending in the local currency. Some of the other benefits included:

* The fact that companies would receive funding at attractive prices
* Sophisticated products would be offered, reflecting RBC’s experience in specialized banking
* Thai personnel, both those working for RBC and those working with clients, would have their skills upgrade
* RBC’s appetite for exposure, available to support trade in over 120 countries worldwide, would be available to support Thai exports
* Technology expertise would be transferred to Thai employees in clients

Funding at attractive prices would enable these branch to further their services and offer them at an affordable rate. Specialized products would set the Royal Bank of Canada apart from their competition and attract a more sophisticated client base. The new client base would increase the influx of funding and enable the bank to offer even more services to additional clients. The Thai employees that are working for this branch would be able to increase their skill set and their career potential. They would be able to realize new job opportunities because of this new business exposure and be able to advance in this company or even move to another large banking institution. The ability to increase the Royal Bank of Canada’s exposure would increase the opportunities throughout the world. An additional 120 countries worldwide would be able to support Thai exports if this representative branch upgraded to a full operating branch.

Another important issue to address was the types of exports that thrived in Thailand. Thailand’s most important exports were rice, rubber, cassava, maize and sugar which made up to 11 percent of exports. Thailand was known for engaging in agriculture, but over the recent years they became known for exporting manufactured products such as clothing, electronic parts and components as well as furniture and jewelry which was now making up 81 percent of their exports. Tourism is the most important foreign exchange source. When tourism becomes the most important foreign exchange source of a country, they need to figure out how to harbor this newfound source of income and harness it. Find a way to sustain it and increase the potential growth. Tourism requires large amounts of capital to be lent to businesses, which in turn, requires large amounts of capital to be invested. Whether these are individual retail investors, institutional investors, or even governments from across the world, the need for capital is still there. Tourism companies in Thailand will be able to thrive because of these foreign capital investors. This would be possible in accordance with the BIBF rules that were stated earlier. No local Thailand capital could be used, but instead, foreign capital from foreign investors. This fits the profile exactly and the outside investors would potentially profit from their investments based on the increase in tourism to Thailand.

Also, the Royal Bank of Canada had to weigh in the current economic and political stability within the country of Thailand. After more than ten years of heavy growth, Thailand’s economy slowed down significantly and the economy failed which in turn, hurt the real estate market. This directly affected Thailand because it became deep in debt. Speculators continued to devalue the Thai currency the baht. This was not good for the Royal Bank of Canada in Thailand because the lending within Thailand would eventually pull back. It would be harder for the capital markets to trade amongst each other. Banks, including the Royal Bank of Canada, would be less willing to extend credit to businesses and individuals because of this economic slowdown. These are macroeconomic factors that trickle down to capital investment banks, institutions, and even the small businesses of Thailand. The lending decreases because the lenders have a tendency to hold onto their capital in times like these. The incentive to invest is taken away because the risk to invest is too high. Money market funds are not paying substantial gains in a recessive market and companies quickly realize that it is better to safeguard their capital instead of putting it at risk. It is a domino effect that the country’s’ economy lays on the businesses, and then the businesses amplify back on the country itself. Foreign investors lose faith in the country that they were once excited to invest within. This is a process that snowballs into something that is beyond the Thailand’s control.

In addition to the current situation in Thailand, the IMF bailout in Thailand is a significant factor in the success of the Royal Bank of Canada. The reforms of the IMF include the closing of another 16 finance firms. Another 42 finance firms were suspended earlier in the year in addition to the previous 16 finance firms. These companies were approached in order to merge with other banks or to come up with another plan. The package also involves tax hikes, cutting costs, and accelerated privatization and maybe, the phasing out of public utilities support. Thailand was able to continue the fast economic growth that it had seen since from the mid-1980s and allowed it to implement two of the three significant reforms that Thailand had long needed which were the restoration of budgetary control and the restructuring of the country’s rickety and corrupt financial system.

I think the bank should cut its losses and focus their efforts in another country. While the people of Thailand believe that they should “weather out the storm” in order to show commitment to the country, RBC has to focus on their best interests. These interests are minimizing their risks and increasing their bottom line. The macroeconomic factors of Thailand were subpar and the reward did not outweigh the risks involved. Maybe they will be better off trying their luck in another emerging market. Many factors point to this decision such as the changing economic factors of Thailand, the current situation of the financial industry, and the recent pull out of all the external funding that was flowing into Thailand.

The Royal Bank of Canada was trying to tap into a new emerging market in order to be a first mover financial institution. For ten years, Thailand showed solid, continued growth and RBC was eager to expand their operations. The growth eventually caught up to the financial system of Thailand and the bottom fell out. The large loans of the land developers showed the inability to pay back their debt obligations. This led to the stock market crashing and the Thai currency was further devalued by speculators of the market. This caused a 20% devaluation of the Thai baht which further snowballed the problem. RBC is already a major player elsewhere in the Asia Pacific sector. They should pull out of Thailand and cut their losses in order to maintain their strong reputation in the sector. The time that they spend speculating that the market will rebound is an added risk. The opportunity cost of their money, time, and efforts may produce a greater outcome if they take it elsewhere.

On the other hand, the Royal Bank of Canada could have utilized credit default swaps on the businesses in Thailand in order to minimize their risk. Essentially, they would be betting on companies in Thailand to default on their corporate debt obligations in order to turn a profit. This could be an opportunity to hedge their bets on their losses in Thailand. While they are on standby and waiting for their representative office to bloom into a full branch office, they could manage their risk exposure by using credit default swaps on other failing companies in Thailand. It is obvious that the entire country of Thailand is taking a hit from foreign investors pulling their investments and gloomy internal investor attitudes. The capital is no longer flowing into Thailand as the Royal Bank of Canada expected and they will have to adjust their business operations accordingly.

Meanwhile, they could maintain their presence in the Thailand market and “weather out the storm” as the locals wanted them to do. They can please the locals while maintain their representative office “marketing” status in the Thailand market. They could have the opportunity to hedge their losses while maintaining a physical presence in the country. This could pay itself in dividends in the future to come. If the Royal Bank of Canada in Thailand just pulls out after all of this capital investment and effort, it may seem like a waste of time. Obviously, this is the counter argument to the easy decision of just pulling out of the country. It is always better to never leave a stone unturned and to utilize all of the possible options that are available. It is difficult to give advice for a foreign market without actually being exposed to it or even visiting the actually country.