

## Strategic Analysis of Japanese Megabanks - Changes in Relative Prioritization of Stakeholders & the Implication for Corporate Strategy

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We perform a series of 5 strategic analyses of Japanese Megabanks. In this paper we review how changes in relative prioritization of stakeholders may impact corporate strategy at Japanese Megabanks. We look to answer the following questions via a case study with reference to RUS<sup>1</sup> Megabank.

*Which key stakeholders have had the highest priority for Japanese Megabanks up to now and which have had the lowest priority? How have these priorities been reflected in actual strategy? Is the relative prioritisation of stakeholders likely to change over the next five years and what are the strategy implications for Japanese Megabanks?*

### RUS' Strategy

The strategy of an organisation is defined as its long-term direction and is guided by the company mission statement. RUS' mission statement is **"To enable growth globally via industry expertise and innovative technologies"** this is supported by a vision statement **"To be a uniquely trusted Asian bank"**. The mission statement highlights the purpose of the company, whilst the vision statement emphasises the future the company wishes to create.

The mission statement has an extensive support and implementation framework as shown in figure 1.1, which is increasingly specific to facilitate its execution, culminating in specific objectives and outcomes to be achieved.

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<sup>1</sup> See appendix for full case study information

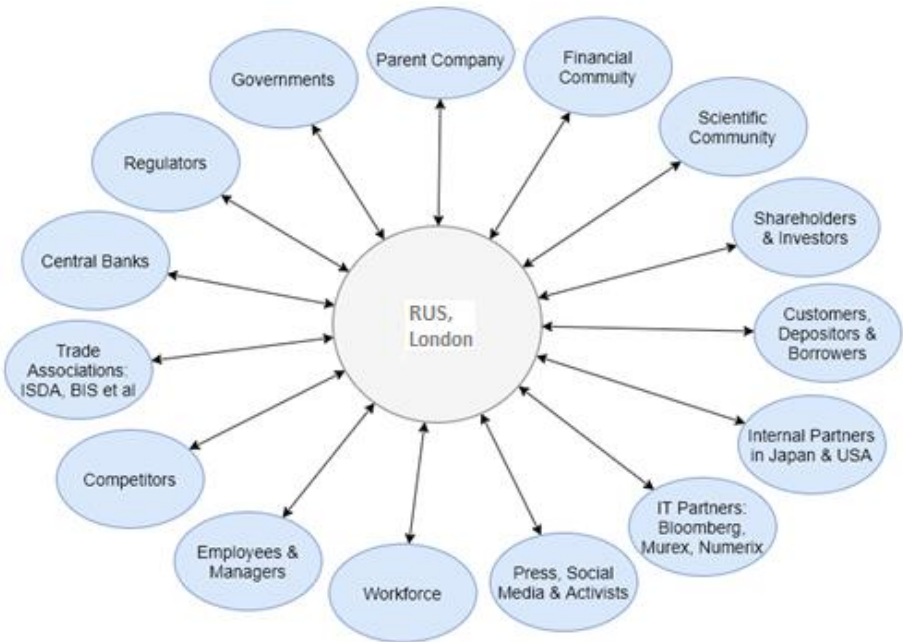
**Figure 1.1    Mission Statement Support & Implementation Framework**



Identifying Important Stakeholders

Stakeholders are the individuals and groups that depend upon the organisation and vice versa. RUS’ main stakeholders are shown in figure 1.2 below.

**Figure 1.2    RUS Stakeholders**



A power-attention matrix helps identify important stakeholders in order to better understand and set strategic priorities. Categorising RUS stakeholders from figure 1.2 accordingly leads to the power-attention matrix shown in figure 1.3.

Figure 1.3 Stakeholder Power-Attention Matrix



For RUS, we identify the ‘**key players**’ as shareholders, investors, customers, regulators and our American internal partner company. The ‘**sleeping giants**’ are important shareholders that are more passive, these include the parent company, governments, central banks and our internal partners in Japan

How are these priorities reflected in actual strategy?

The key players from figure 1.3 are the shareholders, customers, regulators and US internal partners. With the exception of regulators, the key stakeholders are **short-term profit seeking**, which is reflected in the actual strategy review below.

• **Current Activities & Focus**

RUS has a short-term transactional and P&L focus. Technology innovation is often seen as a cost that does not generate P&L. RUS are actively cutting costs and divesting in-house industry expertise and technology innovation. Consequently major projects and regulatory reforms such as BREXIT, FRTB, Basel III, Libor reform are at times excessively outsourced, ironically increasing fixed costs.

- **Incentives and Rewards**

Incentives and rewards are not linked to balanced scorecards. Consequently managers follow their instincts and focus on transactions, P&L and short-term gain. The mission statement “**to enable growth globally**” and “**via industry expertise and innovative technologies**” is often overlooked.

The pursuit of short-term profits clearly suits shareholders, investors, customers and managerial bonuses, but it is detrimental to creating a long-term competitive advantage and the needs of government, central banks, regulators, internal partners and lower priority stakeholders.

### Stakeholder Relative Prioritization Changes Over the Next Five Years

We performed a ‘PESTEL’ macro analysis in analysis 2 ([Burgess 2020b](#)) to predict megatrends of plausible future scenarios over a 5 year period, see figures 2.1 and 2.2. This suggested that current relative stakeholder priorities in figure 1.3 may change as follows over the next 5 years.

Economies are weakening with quantitative easing eroding profit margins. The Rainbow & Unicorn group is struggling to adopt market reforms, to innovate with costly legacy technology. We expect the parent company (RUFG) will become increasingly attentive and may act as a synergy manager to form internal economies of scale to, reduce cost and address innovation requirements. Internal partners will become increasingly important at the relative expense of shareholders, investors and customers. Digital finance, social media trends and the growing importance of climate change will promote the reprioritisation of the below stakeholders.

#### **From sleeping giants to key players to actively cultivate**

- Parent Company, Governments, Central Banks and Internal Partners in Japan

#### **From key players to sleeping giants to keep satisfied**

- Shareholders, Investors, Customers, Depositors and Lenders

#### **From irrelevants to gadflies to keep informed**

- External IT Partners, Software Vendors, Social Media and Climate Change Activists

### Implications for RUS Strategy

With the relative reprioritisation of key stakeholders there is likely to be **more emphasis on value growth and innovation** aspects of RUS' strategy and mission statement.

The current short-term transactional focus coupled with misaligned incentives and rewards overlooks external opportunities and threats and weakens RUS' strategic position and ability to counter slowing growth and declining profits ([Malnight et al, 2019](#)).

**Governments** responding to climate change are endorsing major green finance initiatives to pursue of carbon neutral infrastructure projects ([Thomas, 2020](#)). While **central banks** and **regulators** are pressing for major market and Libor reforms ([JP Morgan, 2019](#)). As the **parent company** (RUFG) becomes more attentive to these external opportunities and threats it is likely to act increasingly as a synergy manager to best manage these costs.

Due to weak global economies and the pressure to cut costs, growth opportunities and market reform requirements are almost certain to be achieved through fostering synergies with **internal partners** and forming economies of scale leading to a strategy dominated by growth and innovation.

## Appendix

## Case Study

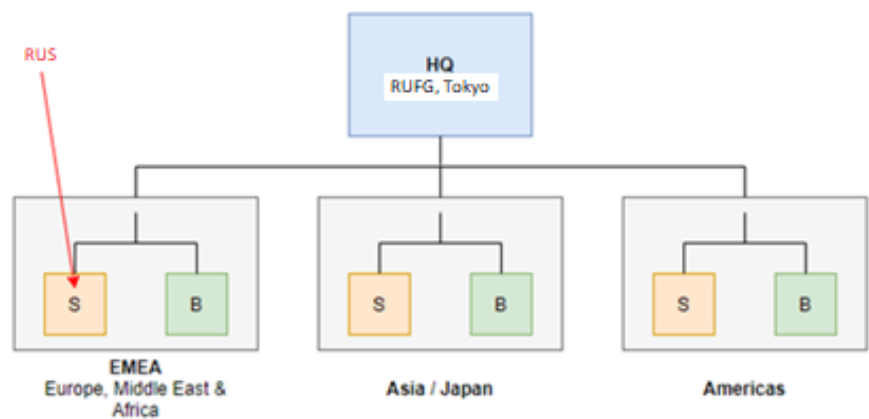
**Organization:** Rainbow & Unicorn Securities, London (RUS)  
**Industry:** Financial Services  
**Sector:** UK Corporate Lending & Project Finance

RUS provide financial services, trading expertise and risk management solutions within the interest rate, fixed income and credit markets. It specialises amongst other things in corporate lending and project finance within the UK and also Europe, Middle-East and Africa (EMEA).

RUS is fully owned by Rainbow & Unicorn Financial Group Tokyo (RUFG), which has a sizable balance sheet, predominantly due to large Japanese deposits. Japanese investors are extremely risk-averse with many business relationships based on trust, reputation and long-term track formed over decades!

RUFG is one of three ‘Japanese Megabanks’ that dominate the financial services industry in Japan with combined deposits exceeding USD 10 trillion (Piece-of-Japan, n.d.). RUFG itself has assets of USD 20 billion and employs 50,000 staff with 500 offices worldwide.

Figure A1: RUFG Organization Chart



RUFG has 3 regional hubs to provide concentrated coverage in Europe & EMEA, Asia & Japan and the Americas. RUFG subsidiaries are siloed with Corporate Banking (B) ring-fenced and Investment & Securities (S) businesses separated to satisfy legal and regulatory requirements.

Corporate Banking subsidiaries (B) have large balance sheets, good access to capital but poor legacy systems & infrastructure. Investment & Securities (S) businesses however have good technology and systems, but small balance sheets and little access to capital.

This case study is fictional, yet inspired by adapted from real-world industry practice and first-hand experience.

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