

## Strategic Analysis of Japanese Megabanks – Core Competency Development for Competitive Advantage

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We perform a series of five strategic analyses of Japanese Megabanks. This paper is the third analysis in the series, where *we explore to what extent Japanese Megabanks and RUG<sup>1</sup> have a ‘core competencies’ that are valuable, rare, inimitable, non-substitutable and whose benefits are organisationally appropriable? How is this core competence different from that of key competitor’s? How do we see this core competence being developed to match strategic challenges over the next five years?*

### Introduction

The long-term survival of any organisation relies upon its ability to well-manage resources to create dynamic capabilities valued by customers. Threshold capabilities are required to survive in a given market and achieve competitive parity. However dynamic capabilities utilise the entire value chain (Zenger, 2013) i.e. sets of resources, capabilities, skills and abilities, see figure 3.1 and create **core competencies** that can respond dynamically to environmental opportunities and threats. They have the potential to create a sustainable competitive advantage.

### To what extent does organisation have a core competency?

Here we assess RUS strengths against **VRINO<sup>2</sup>** criteria to determine if we have a core competency and a basis to achieve a competitive advantage. Individual strengths are valuable, but in isolation they are not rare, not inimitable and not non-substitutable. Combining skills and resources has the potential to create core competencies that respond to environmental opportunities and threats dynamically with the potential to utilise the full value chain.

The analysis can generate very long lists of strengths, resources and capabilities, in figure 3.2 we only list key strengths. It can be a subjective process and difficult for managers to agree on which are the critical success factors to prioritise as highlighted by (Kim and Mauborgne, 2002).

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

<sup>2</sup> An acronym for Valuable, Rare, Inimitable, Non-substitutable and Organisationally appropriable

Figure 3.1 RUS Value Chain

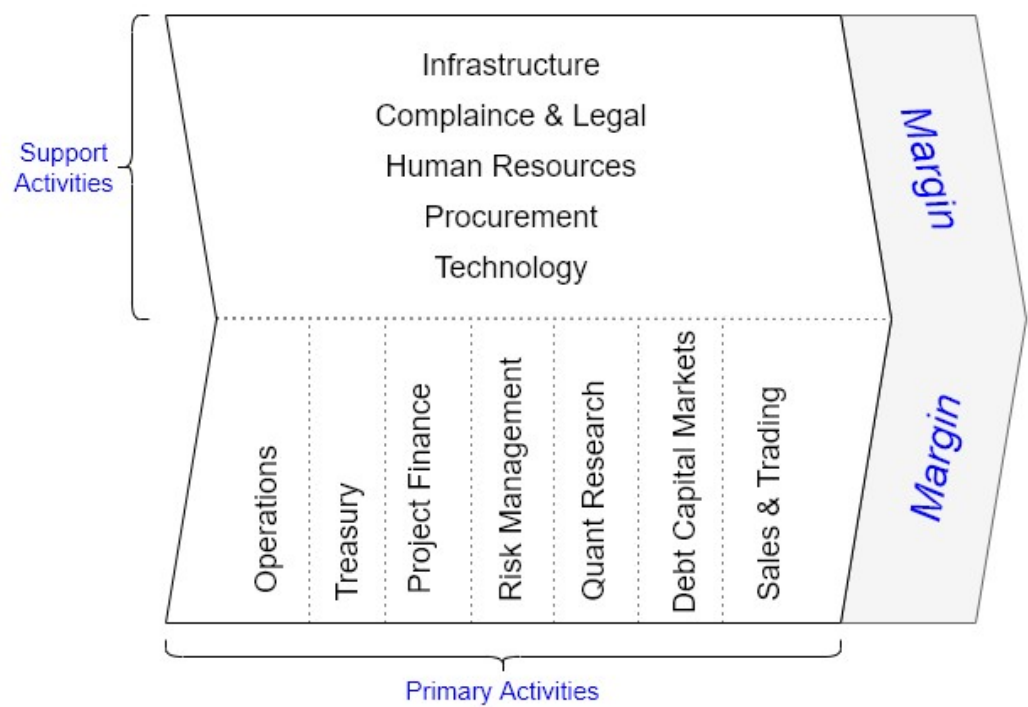


Figure 3.2 VRINO Assessment of RUS Resources and Capabilities

	Valuable	Rare	Inimitable	Non-Substitutable	Organisationally Appropriable
<b>Strengths (S)</b>					
HR Excellence	✓	✗	✗	✗	✗
Skilled Workforce	✓	✗	✗	✗	✗
Parent Co. Large Capital Base	✓	✓	✗	✗	✗
Agile Pricing/Risk Analytics**	✓	✓	✓	✓	✗

\*\* Facilitates Sophisticated, Fast, Bespoke Trading & Risk Capabilities

We can see from figure 3.2 that **agile pricing and risk analytics** is a core competency, since it is valuable, rate, inimitable, non-substitutable, but not organisationally appropriable.

The agile analytics framework facilitates sophisticated state-of-art trade execution and risk management capabilities and provides exceptional speed, accuracy and flexibility. This core

competency is a valuable and rare asset, since it allows RUS to outperform its competitors and provide elevated levels of client service.

The core competency is unique, complex and extensively integrated into RUS core systems. The causal ambiguity of the ecosystem makes it hard to imitate and substitute due to the tacit knowledge required to understand the mathematical models, process dependencies and linkage.

Disappointingly the core competency is not organisationally appropriable and RUS is not well placed to monetize this core competence due to the capital constraints outlined below.

How does this core competence differ from that of key competitors?

The core competence differs from that of key competitors in that it allows RUS to outperform these key competitors in terms of accuracy and speed, which is critical in electronic markets. At the same time pricing, risk sophistication and flexibility allows RUS to dynamically respond to market events and quickly innovate and adapt to regulatory reforms.

Figure 3.3 SWOT Analysis for RUS

	Opportunities (O)		Threats (T)				
	New Technology Machine Learning, AI, Cloud	Green Finance Initiatives	Cyber Security	Hard Brexit	Libor Reform	Workforce Disruption	Resource & Capability TOTAL
<strong>Strengths (S)</strong>							
HR Excellence						5	5
Skilled Workforce	5	5	2	2	5	5	24
Parent Co. Large Capital Base	5	5	2	2	5	2	21
Agile Pricing/Risk Analytics	5	5			10		20
<strong>Weaknesses (W)</strong>							
Legacy Products	-3	-3			-5		-11
Poor Systems Infrastructure	-5	-3	-5		-5		-18
Capital Constraints	-3	-5			-5		-13
Limited Data Availability	-5	-2					-7
Limited Management Metrics	-3	-3	-3	-3	-3	-3	-18
RUS Total	-4	-1	-4	1	2	9	3

Performing a **SWOT**<sup>3</sup> analysis allows us to assess our strategic position and benchmark ourselves against our competitors. It provides a summary of internal resources and capabilities and contrasts them against the external opportunities & threats from our PESTEL scenario analysis, see (Burgess, 2020b) analysis 2 and figure 2.1.

Our key competitors include brokers such as Citadel who specialise in electronic trading and the Japanese megabanks. The later are struggling to innovate and adapt to market reforms with legacy technology and high fixed operational costs.

The VRINO analysis would indicate that we have a competitive advantage. However this is not the case as RUS has a small balance sheet and no access to RUFG group capital as outlined in appendix A. Consequently trading volumes are low due to market capital posting requirements and it is difficult to satisfy client financing needs to win new business.

**Figure 3.4 SWOT Benchmark Analysis**

	Opportunities (O)		Threats (T)				
	New Technology Machine Learning, AI, Cloud	Green Finance Initiatives	Cyber Security	Hard Brexit	Libor Reform	Workforce Disruption	Resource & Capability TOTAL
Rainbow & Unicorn, RUFG	-4	-1	-4	1	2	9	3
Mitsubishi, MUFG	2	2	-4	1	-2	4	3
Sumitomo, SMBC	3	2	-3	1	-2	2	3
Citadel	4	0	0	1	2	-1	6

Overall comparing RUS core competencies relative to key competitors demonstrates competitive parity. RUS are better placed to manage external threats but poorly placed to exploit external opportunities.

The SWOT analysis suggests RUS are more risk averse than its competitors. It is well placed to manage external threats from coronavirus workforce disruption to regulatory Libor reforms (JP

<sup>3</sup> An acronym for Strengths, Weaknesses, Opportunities and Threats

[Morgan, 2019](#)), ([Burgess, 2019a](#)). However it is poorly placed to exploit advances in technology and lucrative government green finance initiatives.

How do you see this core competence being developed to match your organisation's strategic challenges over the next five years?

The **agile pricing and risk analytics** core competence facilitates sophisticated state-of-art trade execution and risk management capabilities. These capabilities and flexibility allow RUS to dynamically respond to market events and quickly innovate and adapt to regulatory reforms.

These are unprecedented times for the world and financial markets. Coronavirus workforce disruption, weak economies, quantitative easing, climate change dominate the headlines. The economic outlook is bleak with Brexit and market regulatory reforms further exasperating financial markets.

There will be a clear paradox to both cut costs and innovate to order to manage the downside financial risks and market reforms. I believe these will be managed through **in-house alliances** and internal economies of scale, which will allow RUS to be both innovative and stable ([McGrath, 2012](#)).

I expect the RUFG parent company will act increasingly as a synergy manager and encourage collaboration and asset sharing, similar to that outlined in ([Kavadias et al, 2016](#)). Internal partnerships will be encouraged as will **organic investment** and enhancement of the agile pricing and risk analytics in order to **increase the product coverage** to better support the broader RUFG group and facilitate **green finance** transactions. I think RUS's pricing and risk analytics will be given a **broader remit** to enrich, supplement and gradually **replace legacy core systems**.

RUS are unable to monetize the core competence due to capital constraints. In the presence of further quantitative easing RUFG may be forced to scrutinize capital usage. This may present an opportunity for RUS to establish internal **capital synergies** and increase the potential to create a sustainable transient **competitive advantage**.

Appendix

Case Study

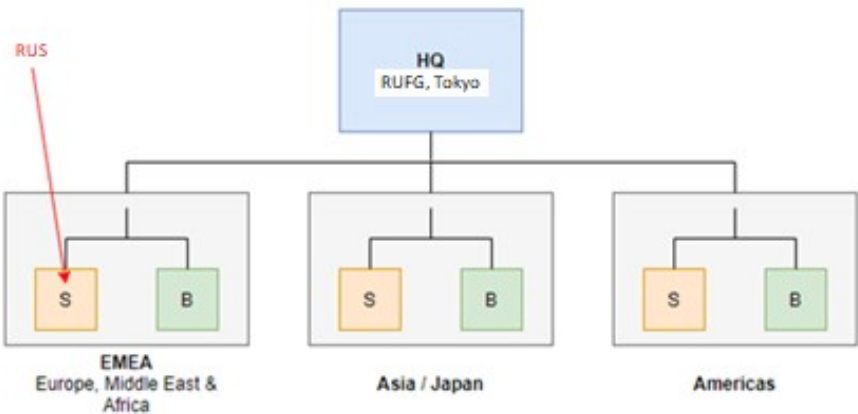
**Organization:** Rainbow & Unicorn Securities, London (RUS)  
**Industry:** Financial Services  
**Sector:** UK Corporate Lending & Project Finance

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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