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KEIRETSU BUSINESS STRUCTURE IN VIRGIN GROUP

A literature review of advantages and disadvantages of Keiretsu

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ABSTRACT

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Name of thesis KEIRETSU BUSINESS STRUCTURE IN VIRGIN GROUP. A literature review of advantages and disadvantages of Keiretsu		
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<p>The aim of this thesis is to show how 'Keiretsu' system, originating from ancient Japan, has been used as a business structure in Virgin Group. By defining Keiretsu and showing the history of Keiretsu, this thesis will elaborate and show the structure, operation and characteristics of Keiretsu.</p> <p>This thesis will highlight and explain the advantages and disadvantages of Keiretsu as a business structure. It will demonstrate how Virgin Group has adapted Keiretsu business structure in its operations. This thesis will also elaborate how this business structure works and how it has helped the Virgin Group to achieve its huge success in the market.</p> <p>Through research and gathering of data, this thesis will show the characteristics and functions that Virgin Group has that are borrowed from a Keiretsu.</p>		
Key words Business structure, Keiretsu, Virgin Group.		

ABSTRACT
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1 INTRODUCTION

Business structure refers to the entity of the business that is recognized by law in a specific jurisdiction. Business structure is used to describe the status of a company or organization legally. Choosing a business structure is very vital before the business can start operating. A business structure determines the way a company is taxed; the set-up costs of the company; investors' level of liability and ability to raise money for the company and the type of regulations the company is limited to (Randles & Laasch 2015.)

It is possible to change a business structure of a business but it is advisable to decide what structure is best for the company. It is also important to remember that an investor has to consider their level of tolerance for risk taking and the administrative work concerning the business (Randles & Laasch 2015.)

The common types of business structure are; company, partnership, trust, sole proprietor, cooperation and association. Sole proprietorship is the most simplest and cost effective business structure. A company is a legal entity that holds its own assets. A company is seen as an entity that unites features of corporations and partnerships (Macfarlane 2002.)

A partnership is usually a business entity that involves two to twenty people going into business together. Trusts are entities that are not legal. This makes them the best choice for non-profit run organizations. Sole proprietorship means that it is owned by a single individual. This is a common choice for self-employed people and freelancers (Macfarlane 2002.)

Corporation structure is the most expensive and more complicated. Cooperation entities mean that the business is independent legally and separate from its owners. This means that there is more regulations and tax requirements. An association is legally registered business entity that involves at least five members and all profits are put back into the association's activities. Associations are usually established for cultural, recreational and charitable purposes (Macfarlane 2002.)

2 THEORETICAL FRAMEWORK

This chapter will generally define Keiretsu as a business structure, show the history and demonstrate a case example of a company that uses Keiretsu in order to give the reader a clear view of the basic concepts of this study.

2.1 Keiretsu

Keiretsu is a Japanese word that means Grouping of enterprises that forms a system. It is a set of companies with interlocking business relationships and shareholdings or a type of informal business Group. It is steeped in tradition and in relationships (Kenton 2018.)

This involves member companies owning shares in each other's companies. This helps to protect each company from violent take overs or stock market fluctuations thus enabling long-term planning in innovative projects. The associations of companies cooperate with each other, own shares in each other's stock and are formed around a bank (Kenton 2018.)

2.2 History of Keiretsu

Corporate governance in Japan started in the 1600s and was driven by the then newly formed government of Meiji Restoration (Twomey 2018). These corporations were called "zaibatsu", which means a monopoly in English. They were family owned conglomerate enterprises that were promoted by the Meiji government and received special privileges (Watkins 2015).

Keiretsu rose from the zaibatsu after World War II but differed from the zaibatsu in essential ways. Zaibatsu had banks and trading companies as the most powerful aspects of the formation and sitting at the top of the organization therefore, controlling all financial operations and distribution of goods and services. Founding families controlled everything (Twomey 2018.)

Keiretsu adapted the same formation of banks and trading companies on top of the organization and with control of each company in the organization, but with the trading companies having autonomous power of operation. Founding families in Zaibatsu were replaced by shareholders and holding companies due to new laws by the Japanese government. Keiretsu maintained dominance over the Japanese economy for the last half of the 20th century (Watkins 2015.)

2.3 Functions of Keiretsu

Through its functions, Keiretsu has advantage over competitors and contributes to its success. These functions are performed by the Keiretsu for its member companies (Shimotani 1995). Five of the most important functions are explained below.

A Keiretsu manages and organizes the overall business procedures for its member companies. This includes administrative services and organizational functions like marketing, distribution, warehousing etc. Trading companies within the Keiretsu perform most of these organization functions. This helps the Keiretsu to save costs, manage time efficiently, increase strategic efficiency and reduce risk management (Shimotani 1995).

Keiretsu focuses more on long term agreements between their member companies. Companies within the Keiretsu hold shares and interests among themselves. These business inter-relationships result to stability of the Keiretsu and make it difficult for take overs by competitors (Yoshihara 1994).

Access to information in this modern age of business is crucial. Keiretsu has information policies for gathering, sharing and using of business information. Crucial information is shared among the member companies and this gives the Keiretsu huge advantage over competitors. (Kensy 2001).

In the middle of Keiretsu is a financial institution, usually a bank. This Financial institution plays a very major role in a Keiretsu of providing access to funds, loans, capital and even guarantor functions to member companies (Kensy 2001).

Keiretsu acts as a protector and as a management planner for its member companies. Keiretsu provides protection to its companies from hostile takeover pressures and foreign market competitors (Yoshihara

1994). The financial institution within Keiretsu monitors member companies' performances and functions as a management controller (Kensy 2001).

2.4 Keiretsu as a business structure

There are two types of Keiretsu structures: - Horizontal Keiretsu and Vertical Keiretsu. Horizontal Keiretsu is also known as financial Keiretsu. It is set up around a bank which assists these companies which are interlocked or interrelated with financial services. Horizontal Keiretsu may also have vertical relationships, called branches (Twomey 2018).

The link of these companies through ownership of long-term equity and production activities, leads to emergence of vertical Keiretsu which is also known as industrial Keiretsu. This is used to link suppliers, manufacturers, and distributors of one industry. A company or several companies are created and all work to the benefit of the parent company. In this case, banks have less influence (Watkins 2015).

Vertical Keiretsu is divided into levels called tiers where the second tier is made up of major suppliers, followed by smaller manufacturers, who make up the third and fourth tiers. The lower the tier, the greater the risk of economic disruption hence due to low position in the Keiretsu hierarchy, profit margins are low (Twomey 2018).

2.5 Case example of Keiretsu as a business structure

As illustrated above, the vertical integration in Keiretsu is part of the larger horizontal structure of the Keiretsu. This can be seen in the example where each of the biggest Japanese car companies is in the big six Keiretsu organizations in Japan as so is the case in each of the Japanese major electronic companies (Watkins 2015).

Mitsubishi is a typical example of a horizontal Keiretsu in Japan where the bank of Tokyo-Mitsubishi is at the top of Keiretsu. This Keiretsu consists of Mitsubishi Trust and Banking, Mitsubishi Motors and Meiji Mutual Life Insurance Company. Meiji Mutual Life Insurance Company covers the insurance of all the member companies. This Keiretsu trades under the name of Mitsubishi Shoji (Watkins 2015).

The sole purpose for this horizontal Keiretsu is to distribute goods and services, sign contracts, help incorporate Keiretsu and seek new markets around the world (Aoyama 2000). Other major examples of horizontal Keiretsu in Japan include The Sumitomo Group, Fuyo Group, The Sanwa Group and The Dai-Ichi Kangyo Bank Group (Watkins 2015).

The automobile great company of Toyota is a typical example of a vertical Keiretsu. Toyota depends on manufacturers and suppliers for its automobile parts, plastics, steel and electronics. Toyota depends on dealerships from real estate and employees for production as well as wholesalers for its products (Aoyama 2000). Toyota's companies all operate in the vertical Keiretsu of Toyota although they are members of the larger horizontal Keiretsu but are much lower on the organizational chart. These ancillary companies may not have a purpose for existence without Toyota as the anchor and main company (Watkins 2015).

3 RESEARCH PURPOSE, AIM & METHODOLOGY

The purpose of this thesis is to study and show how Keiretsu works and show the advantages and disadvantages of Keiretsu as a business structure. The aim of this thesis is to provide knowledge about how Virgin Group Company has adapted Keiretsu as a business structure.

The research questions for this thesis are:

1. How has Virgin Atlantic Company adapted Keiretsu business structure?
2. What are the advantages and disadvantages of Keiretsu?

3.1 Methodology

This chapter explains and shows the type of methodology used in this research. This includes data collection, data analysis, literature review and ethical considerations. The meaning of literature is academic scholarly writings. Literature review of research articles related to the topic of the thesis is carried out. A research of previous and existing scholarly works sharing the same knowledge concerning the topic of study is done. Aspects of searching, surveying, knowledge enhancement and reporting of information are combined when doing literature review (Kant & Patil 2014).

Through the research questions, I reviewed literature that had data related to the topic of study. I searched literature in journals and databases that are of relevance. I used literature review because it included studying information that has already been researched concerning the topic of study. This made me acknowledge other authors through referencing their articles and works.

Literature review has about five functions that include: foundation building, demonstration of how a study promotes knowledge and the conceptualization of the study. By using literature review, research designs are assessed and the findings are interpreted (Holloway 2013).

3.2 Data collection

I collected data through qualitative method. I collected data from academic databases offered by Centria University of applied sciences and other relevant databases relating to the topic of this thesis. Databases used were SAGE, Science Direct and Cinahl (EBSCO). Table 1 below shows the search results for key words like “KIERETSU”, “VIRGIN GROUP”, “KIERETSU IN VIRGIN GROUP”, “ADVANTAGES AND DISADVANTAGES OF KEIRETSU” and “KIERETSU BUSINESS STRUCTURE”.

TABLE 1. Search results

Key word	SAGE	Science Direct	Cinahl (EBSCO)
Keiretsu	345	134	564
Virgin Group	435	897	123
Keiretsu in Virgin Group	22	14	18
Keiretsu business structure	464	345	98
Advantages and disadvantages of Keiretsu	66	45	60

3.3 Exclusion and Inclusion criteria

Table 2 below shows the inclusion and exclusion criteria that I used to cut down the search and use only specific and relevant articles related to this topic of study.

TABLE 2. Inclusion and exclusion criteria of articles

Inclusion Criteria	Exclusion Criteria
Relevant articles to the topic	Articles that lacked relevancy to the topic of study
Full text articles	Articles that are not in full texts.
English language	Articles not in English language
Free of charge articles	Pay to view/ read articles

A common method of data analysis is qualitative content analysis. By analyzing articles, there is better understanding of the researched data. Researches can make valid inferences of data and information by providing new knowledge, insights and representing facts. Identification and interpretation of raw data is done through reading articles and organizing the data into themes concerning the research questions (Kyngäs & Elo 2007).

4 VIRGIN GROUP LIMITED

The Virgin Group limited was founded by Sir Richard Branson and Nik Powell. It is a multinational venture capital conglomerate. It was incorporated in 1989 in Britain as a holding company. The net worth of the Virgin Group was estimated to be £5–5.5 billion as of November 2018 (Virgin Group 2019).

Virgin Group consists of more than 300 independent held companies. Virgin Atlantic airways, number two airline in the United Kingdom; Virgin rail, second largest United Kingdom train operator; Virgin Direct, which offers financial services; Virgin Retail Group that operates numerous Virgin Megastores and Virgin Holidays, a vacation and a tour operator (Grant & Robert 2004). Virgin Group also consists other businesses include a record label, music and book publishing operations; internet service providers; Radio station; line of clothing; bridal and cosmetics retailing concepts; gym and fitness concepts and movie theaters (Reference for business 2019).

Richard Branson one of the founders of the Virgin Group is responsible for spearheading the Virgin brand and keeping the companies together. In 1967, at the age of 17 years, Richard Branson dropped from a boarding school (Reference for business 2019). He started his own magazine and the venture proved to be a success establishing the foundation of the Conglomerate Virgin brand. Branson would along the way gain a reputation due to his business exploits, unique personality and his unquenched quest for adventure. The Virgin brand became one of the top brands in the late 1990s (Grant & Robert 2004).

Virgin now is one of the companies dominating the British market and has also expanded into United States of America, Australia and Canada markets. Today, Virgin Group is a global brand. In the Virgin Group, there is no hierarchical presence. Each company in the Virgin Group is an independent entity and operates separately. This gives the companies autonomous power of operation. Richard Branson only holds ownership of a firm as CEO or owns a controlling interest in shareholders equity. Richard Branson has shares in all the companies, is a chairman and public relations supreme (Study mode 2019).

The Virgin Group operates in a departmental structure. This means each company is its own department. These companies own their assets; employ workers and offers goods and services. Each compa-

ny can also form its own independent departments. A good example would be Virgin mobile. It is an independent department which has other independent departments like Virgin mobile UK, USA and Australia on their own. This shows geographic departmentalization. The operating companies are owned by about 20 holding companies. Virgin Group is as operating in a hybrid structure that resembles the Keiretsu. It has an organic structure. This means it promotes flexibility and adaptability in order to change in its environment. (Jones, Mills, Weatherbee, & Mills 2006).

Richard Branson influences the culture of the Virgin Group by his philosophies and beliefs. He is seen as the reason behind the success of the Virgin Group and brand. Branson created decentralized business structure in Virgin Group by allowing his employees to make decisions without consulting him and therefore reducing bureaucracy (Shavinina 2006).

4.1 Economy and Business point of view

The success factor in Virgin Group is in the founder, Richard Branson. His charismatic manner and style attract customers towards the Virgin. He is the symbol of Virgin brand and this makes the Virgin brand quite unique. The workers in Virgin Group too are also a reason why Virgin is successful. Virgin Group is made up of many small Virgin companies and these companies have autonomous management. Managements have been given freedom to make decisions, make opinions and make innovative strategical changes for the company's development (Study mode 2019).

Decisions are made depending on market analysis and customer needs. Only qualified, competitive, enthusiastic, passionate and creative people make the cut for recruitment. These workers are encouraged to be creative, responsible and demonstrate Richard Branson's image and characteristics (Shavinina 2006).

The Virgin Group has a great brand strategy. The Virgin brand has a lot of value in UK. They use the same brand name in all the companies affiliated with Virgin Group. When a company sells a lot of products under one brand name, it does not spend more on advertisement. If the brand is already recognizable in the market, any product that comes with this brand name will attract customers. This is because the brand has already loyal customers from the beginning or from other prior products. This is not always the case and there is a threat to this brand strategy. If the product doesn't attract customers,

then it jeopardizes the brand and it may degrade the brand's image. Virgin brand uses its great brand in all its products thus tagging all new products with value and reputation (Rothacher 2004).

The corporate structure of Virgin Group is quite unclear and this makes it different than other companies and Groups. Virgin Group is a private company with different companies and organizations. All the companies are private and not public limited companies. The financial structure, income and account statements are not clearly available. This could be as result of Virgin Group's companies being loosely linked. The companies also are self-managed and independent although they are all under one brand name. The primary focus of the Virgin Group is to target long term profits and benefit shareholders and financiers (Rothacher 2004).

Virgin Group's target is to work in many different sectors of businesses under a single brand name. They allow small companies to use their brand name as it helps companies market well and get recognition. This means that Virgin Group enjoys both large- and small-scale company's profits. Virgin Group has one head office where there is a central unit that works on the business strategies and managing of all the companies (Virgin Group 2019).

Virgin Group has a single website *www.Virgin.com*, which allows customers to access all services and products from all the companies (Virgin Group 2019). If a customer access and use of the Virgin Group's company's products or services, they automatically become members of the Virgin Group family. Being a Virgin family member allows you to use all the other services of the Virgin Group e.g. banking, telecommunication, internet needs, travelling etc. This way, the companies interact and share customers (Wilson & Gilligan 1998).

Richard Branson created a 'five pillars' System that all companies in Virgin Group use in their strategic relationship. The five pillars system that Richard Branson created includes Travel, mobile phones, Personal Finance, leisure and entertainment retailing. These products and services are served with innovation, fun and dare (UK Essays 2018).

4.2 Virgin Group PEST Analysis

PEST is an acronym that means Political, Economic, Socio-cultural and Technology. These are the changes in the business environment that create opportunities and also cause threats (Investopedia 2019).

4.2.1 Political factors

Virgin Group adheres to all rules and regulations of the various countries it is based in by paying its taxes and having policies that are according to the government rules. Virgin Rail, a Virgin Group company has partnered with stagecoach, the second largest transport Group in the United Kingdom. They are providing rail services in UK (Research methodology 2019).

Virgin brand is trusted in Britain, has a big customer base, a lot of influence and a great relationship with its customers (Prudham 2009). There has been political interference in Virgin Group as its financial reports are unclear due to a lot of partnerships with a lot of companies. Uncertainty with Brexit is seen as political factor that may change the way Virgin Group conducts its business in Britain (UK Essays 2018).

4.2.2 Economic factors

Virgin Group partners with a lot of small companies thus expanding its business and increasing operations to tackle competitors. Effects of the global recession to Virgin Group had it closing down some companies and cutting jobs. Moreover, Virgin Group is affected by fluctuations in local and international markets. This is evident in some losses it has undergone in some countries (UK Essays 2018).

4.2.3 Social factors

Virgin Group has good services and products with the mission of Virgin Group being to give outstanding services to all its customers according to the economic conditions of the customer (Virgin Group 2009).

Virgin Group through Virgin mobile offers different services according to customer's social conditions (Prudham 2009). As a social promotion strategy, Virgin Group opened Virgin Earth challenge as environmental challenges are rising each day (Virgin Group 2009).

4.2.4 Technological factors

Virgin Group uses the late state of technology and up to date software and technology by Virgin Group to serve its customers. Virgin Group has interests in space and technological ventures with an example being Virgin Space (Branson 2009). Provision of internet services and wireless technology in Virgin Group are guided by policies which change according to trends and customers interests (Virgin Group 2009).

4.3 Virgin Group SWOT analysis

This is an analysis tool for evaluating a businesses' competitive position, internal factors and external factors, current and future potential. It helps in developing strategic plans (Investopedia 2019).

4.3.1 Strengths

Virgin Group has a strong Brand. Virgin brand is big in UK, USA, and Australia. The brand commands influence. Huge promotion influences and recognition (Research methodology 2019). High budget in investments enables investments in all kinds of businesses globally and hence huge profits. Virgin Group has up to date Technology and highly skilled IT professionals (UK Essays 2018).

Virgin distributes its products and services in retail stores and through their online website portal. Virgin Group demonstrates diversity in export processes by having different ways to transport products and services which include having a rail venture, airport venture and seaport ventures (UK Essays 2018).

4.3.2 Weaknesses

There is loose supervision and control can go out of hand sometimes As Virgin Group is made up of a lot of other independent companies. This can also result to a communication gap (Research methodology 2019). Virgin Group's mixture of various brands can cause weakness especially if some of the products fail to sell well. Some of Virgin Group's assets and machinery are outdated e.g. the rails and airplanes (UK Essays 2018).

4.3.3 Opportunities

Virgin Group explores opportunities to expand globally by pushing the same global products and services to other countries (Research methodology 2019). Virgin Group gets opportunities of getting good deals from small companies looking to grow and expand in other countries across the globe (UK Essays 2018).

Virgin Group explores opportunities in changes in technology and upgrading technology. The Group also trains new and older employees in new and upcoming business strategies and changes in trends thus taking advantage of opportunities in new ways of doing business (UK Essays 2018).

4.3.4 Threats

Virgin Group depends a lot on Richard Branson's parenting strategy. If it goes well the Virgin Group profits, if it does not go well, the competition increases. Richard Branson has to start putting his ideas and strategies for the future running of the business. This will require very articulate training and implementation (UK Essays 2018).

Virgin Group has to come up with a way of maintaining control and supervision to all its companies in the future for future leadership and implementation of its strategies and polices (Research methodology 2019). Unfavorable government policies in some countries on investment are and remain to be major threats to the Group. Brexit and its forecasted damage to the economy of United Kingdom also remains an impending threat to Virgin Group (UK Essays 2018).

4.4 Virgin Group's vision, purpose and values

The Virgin Group's vision is to be the shopper victor. This is done by delivering brand values which include value for currency, great customer service, superior quality, competitively testing and fun. The Group provides quality services by motivating employees, examining consumer feedback for product and service continuous improvement. Virgin Group's vision also includes creating products and services that make the customer's life more enjoyable (Virgin Group 2019).

The purpose of Virgin Group is to change business for good. This means: -

- Virgin Group focuses more on the long-term impact of the business decisions they are making.
- Virgin Group has a clearly articulated and measurable purpose in every Virgin business which drives their decisions. This also fuels their success and hence results to customer satisfaction, positive impact to people, communities and the environment.
- Virgin Group embeds their purpose principles and values in all existing and new business investments.
- Virgin Group pioneers systemic change through Sir Richard Branson's advocacy as a global business leader (Virgin Group 2019).

Virgin Group's values are based on the Group's demeanor of being delightfully surprising, energetic and direct while still being curious. The values are promoted through Support among the Virgin Group family by maintaining a friendly environment and inclusivity (Virgin Group 2019).

Virgin Group family is a respectful, honest, trustworthy and responsible. The family takes pride in what they do. The Group works productively, passionately and have fun too. The Virgin Group team is adventurous, curious, explores new ideas and innovative solutions. The team in Virgin Group is creative and always tries to find smart ways to make positive changes that challenge the status quo (Virgin Group 2019).

5 RESULTS

This chapter presents findings from content analysis of the articles and the research questions are answered and explained in this chapter.

5.1 How has Virgin Group adapted Keiretsu business structure?

The Virgin Group limited consists of over 300 odd companies. Each of these companies work and operates independently. These companies own their own assets, have their own separate employees and offer different goods and services. About 20 Holding companies own and control these companies. Richard Branson serves as the chairman of the Virgin Group (McGuire & Dow 2002).

The Virgin Group is seen to have a complex structure. It is seen to operate as Keiretsu. Virgin Group has Keiretsu structure. The companies that make the Virgin Group all have shares and interests in each other. This is a characteristic of Keiretsu. These companies all work to further and advance the Virgin Groups interests (Dewenter 2003).

Due to the nature of Virgin Group's complex structure, there has been need for it to be an organic organization in order for it to be flexible and adapt quickly to change. This is evident in the way Virgin Group adapts a hybrid structure of multi-departmentalization which is a strong characteristic of Keiretsu (McGuire & Dow 2002).

Virgin Group's companies as seen as exhibiting product departmentalization as each company provide a unique product or service. Product departmentalization refers to division of an organization's departments according to products or services offered. An example of this aspect is Virgin Atlantic offers aviation services while Virgin Records is a music label. This is another characteristic of Keiretsu that Virgin Group exhibits (McGuire & Dow 2002).

Virgin Group also takes into action geographic departmentalization. This is evident in the way Virgin Mobile operates in different countries. The services of Virgin Mobile then vary according to country of operation. The same can be said about the customer base that Virgin Group targets. The type of services and products Virgin Group offers differ according to the target Group. This exhibits customer departmentalization. The multi-departmental approach helps Virgin Group to adapt easily according to

geographical aspects, cultural aspects, technological aspects and other factors as it expands (Dewenter 2003).

Virgin Group's one head office is a central unit. The Unit works on the business strategies and managing of all the companies. Through their single website *www.Virgin.com*, the companies can share information that is stored by the system once a customer visits the website (Virgin Group 2019). This promotes communication among the companies that make up the Virgin Group. (Peng, Lee & Tan 2001).

Access to information is a modern crucial need for businesses. Virgin Group maintains a flow of updated, fast information to its companies. This information is shared among the companies as an advantage against competitors. Financial information comes from financial and trading links. This is another characteristic of Keiretsu that Virgin Group employs in its operations (McGuire & Dow 2002).

Virgin Group has been able to distribute the risk function among all the independent companies. This is evident in the way each company owns shares and interest in all the other companies. The companies focus more on long term profits and this is a fundamental principle of Keiretsu. The companies trade and operate with each other even though they are independent. This makes it hard for competitors as they are competing against the whole Group (Dewenter 2003).

An important function in Keiretsu is organization activities for all the Group companies. Virgin Group as mentioned earlier has a head office. The Unit works on the business strategies and managing of all the companies. The unit organizes operational activities for all of the Group companies. This contributes to saving time, reducing risk management, increasing strategic efficiency and saving costs. Virgin Group also plays an important role of management planning and acts as a general protector of Group companies (Peng et al. 2001).

Keiretsu always has a bank within itself. This provides access to funding for the companies making up the Keiretsu. In Virgin Group, there is Virgin money which is a bank that funds Virgin Group's companies and also acts as a guarantor for other banks' lending money to these companies (Peng et al. 2001).

5.2 Advantages of Keiretsu

Since Keiretsu is made of a network of companies which have interrelationships, these shields the companies from a strong take over. Companies have shares, cross holdings and long-standing relationships with each other within Keiretsu. The companies act and work together to shield each other from take over from competitors. The mutual stockholding results to stability (Wozniacki 2009).

Keiretsu can protect a threatened member company by raising the mutual shareholdings to wade off potential threat and take over. Usually big shareholders in Keiretsu do not sell their shares and interests (Peng et al. 2001).

Within Keiretsu is a bank. This brings an advantage of the ability for the companies to get funding, loans, guarantor and also debt financing from Keiretsu bank or alternative financial institutions affiliated with the Keiretsu. In Keiretsu, financing can also be sort from other companies within the Keiretsu which helps to avoid external borrowing. This financial advantage enjoyed within Keiretsu results to stable cash flows and financial distress issues can be solved relatively fast (McGuire & Dow 2002).

The network of Keiretsu is seen to promote cohesiveness. This helps Keiretsu members to engage together in large projects. Intra-Keiretsu companies' dealings and operations reduce costs and increases efficiency within the supply chain. This has been seen to increase natural synergy in Keiretsu (Lin 2005).

Quick investment decisions are seen to be made in Keiretsu due to sharing of information among the companies (McGuire & Dow 2002). Information sharing among suppliers, employees, customers and companies increases efficiency in knowing the goals and purpose of the companies. Keiretsu provides a network for information gathering, sharing and policy deliberations. This makes all the companies equal and able to operate on equal grounds (Jonathan & Johnson 1992).

Keiretsu companies are allowed to plan and focus more on long term projects rather than focusing on short term profits. Suppliers enjoy long term contracts. An advantage of Keiretsu is reduction of risks and monitoring of benefits (Bernotas 2005).

5.3 Disadvantages of Keiretsu

Even though Keiretsu play a major role in creating a firm and stable business system, it can have some disadvantages for its companies. Member companies in Keiretsu usually don't have a free will to choose customers and suppliers. This usually results to companies losing some opportunities and even higher profit margins from foregone sales and unpursued capacity (McGuire & Dow 2002).

Supplier companies in Keiretsu can feel like captives. If for an example a main company in a Keiretsu wants to cut costs and reduce expenses, it can force a supplier to supply at a low profit and even to an extend a loss. These suppliers rely on the companies in Keiretsu for orders and so they have no choice but to comply (Bernotas 2005).

Dividends in Keiretsu can be relatively low and as mentioned above in advantages, take overs are very low. This is a disadvantage for outside shareholders as they very little influence on companies in Keiretsu (Bernotas 2005).

Competition in Keiretsu is very limited and this leads to inefficient practices. Companies within Keiretsu can easily accumulate a lot of debt and pursue risky strategies due to the fact that access to capital and funding is readily available (Lin 2005).

Even though there is a free flow of information due to gathering and sharing policies within Keiretsu, Critics believe that Keiretsu adapts poorly and slow to market changes due to its big size. This usually has costs in profits from investments. In some countries, sharing of the information among the companies in Keiretsu is seen as unfair collusion and maybe termed as illegal (Jonathan & Johnson 1992).

6 DISCUSSION

The purpose of this thesis is to study and show how Keiretsu works, the advantages and disadvantages of Keiretsu as a business structure. The aim of this thesis is to provide knowledge about how Virgin Group Company has adapted Keiretsu as a business structure.

My research method is a literature review. I looked up and researched scientific articles related to the topic of study. I researched previous, existing studies and scholarly writings relating to the topic of study. Literature review consists of searching tool, a listing tool, knowledge enhancement survey and a reporting tool.

The results indicate that Virgin Group is more of a cross between a branded venture capital organization and Keiretsu. Virgin Group has autonomous companies that are loosely connected to each other. These companies are independent, self-managed but all belong and use the brand name Virgin. Therefore, they make up the Virgin Group family. The decentralized approach of decision-making process adapted by Virgin Group enables its companies to make independent business decisions and take responsibility of their own development. This is a major characteristic of Keiretsu (Balmer 2010).

Virgin Group's member companies focus more on the long-term profits and this is a reason why they reinvest to focus more on the future. By use of business strategies, Virgin Group makes a competitive advantage by exploiting its core competencies. This is also achieved by matching strengths and opportunities in individual product markets (Balmer 2010).

Keiretsu demonstrates its advantages and also its weaknesses. Keiretsu brings customers to suppliers, dictates an assured pricing structure, predicts the production, protects member companies, funds members companies and provides a quality performance. The stable environment advantage brought by Keiretsu leads to reduced costs, product improvement and development and long-term profits (Carney 2005).

A big disadvantage of Keiretsu is inflexibility. The suppliers usually lag in innovation in the long run. Suppliers usually end up feeling like captives depending on their sole customer. Prices are not dictated by the competitive market pricing but rather they become more of transfer pricing (Carney 2005).

7 CONCLUSION

Virgin Group implements the functions of Keiretsu in its operations by maintaining a strategic coordination among its member companies. This offers Virgin Group stability and prevents it from competitors. Sharing of information among its companies is another function of Keiretsu that Virgin employs in its operations. Through strategic coordination, Virgin Group reduces and distributes risks among its companies from threats against the organization. In the midst of Virgin Group is a financial institution which offers financial support to its companies (Balmer 2010).

It is evident that Virgin Group is a successful organization and one of the biggest brands of the modern time. The results of this thesis suggested that Virgin Group has used Keiretsu structure and strategy. It is arguably one of the few organizations that are not Japanese that have adapted Keiretsu approach. Most of the Virgin Group's success story is attributed to Richard Branson and his unorthodox ways of doing things.

The advantages of Keiretsu seem to outweigh the disadvantages. It is important to note that although Keiretsu is an ancient Japanese business strategy, there is no so much studies and research that has been done about modern Keiretsu.

It is important that I point out that I did not obtain an official permission to do this research from Virgin Group limited. I did not at any point consult Virgin Group about this thesis. The results are all based on the literature review of the prior researched materials.

This thesis took long to finish since I was studying two different courses at the same time but all in all I learnt a lot during the process of writing this thesis about Keiretsu and also about Virgin Group.

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APPENDIX 1

Author(s)	Article name	Journal & year	Summary
David Bernotas	Ownership structure and firm profitability in the Japanese Keiretsu.	Journal of Asian Economics. 2005	<ul style="list-style-type: none"> • Keiretsu structure. • Short term goals in Keiretsu. • Reduction of risks & monitoring of benefits in a Keiretsu.
Jean McGuire & Sandra Dow	The Japanese Keiretsu system: an empirical analysis.	Journal of Business Research. 2002.	<ul style="list-style-type: none"> • History of Keiretsu • Autonomous of companies in a Keiretsu. • Keiretsu business structure.
Kathryn L. Dewenter	The risk-sharing role of Japanese Keiretsu business Groups: evidence from restructuring in the 1990s.	Japan and the World Economy. 2003	<ul style="list-style-type: none"> • Keiretsu business structure & strategy. • Advantages and disadvantages of Keiretsu.
Virgin Group	Virgin Group	2019	<ul style="list-style-type: none"> • Virgin Group limited • departmentalization in Virgin Group • Virgin Group website strategy.
Mike W. Peng, Seung-Hyun Lee & J. Justin Tan	The Keiretsu in Asia: Implications for multilevel theories of competitive advantage.	Journal of International Management, 2001.	<ul style="list-style-type: none"> • Competitive advantages of Keiretsu. • Advantages and disadvantages of Keiretsu. • Inter-relations of companies in a Keiretsu.
Patrycja Pendrakowska	What are the major characteristics and functions of the Japanese Keiretsu?	CSAP,2009	<ul style="list-style-type: none"> • Characteristics of a Keiretsu. • Functions of a Japanese Keiretsu.
Chelsea C. Lin	The transition of the Japanese Keiretsu in the changing economy.	Journal of the Japanese and International Economies, 2005.	<ul style="list-style-type: none"> • Modern Keiretsu • Efficiency in Keiretsu • Limitations of competitions in Keiretsu. • reduction of costs in Keiretsu.
Jonathan E. Johnson III	Keiretsu: Their Effect on Business and How American Government and Business Can Confront Them.	Journal of the Japanese and International Economies	<ul style="list-style-type: none"> • Information gathering, flowing, sharing and policies in a Keiretsu. • Advantages and disadvantages of Keiretsu.