4.2.1 Vertical *Keiretsu*[38]

Vertical *keiretsu* are groups of companies engaged in activities that generate revenues from a principal product. The firms involved are usually suppliers of various component parts, such as in the automotive and electronics sectors. Both the central manufacturer and sub-contractor or distributor firms benefit from the stability of the relationships. The central manufacturer receives inputs of a certain quality and quantity, and its output is promoted and distributed in a consistent manner. Smaller sub-contractors and distributors benefit from managerial, financial and technological support from the larger firms and are guaranteed a reasonable long-term profit.

Banks are not directly related to vertical *keiretsu*. The dominant position is held by the principal manufacturer which also provides intra-*keiretsu* financing. The principal companies hold shares in their affiliates, but affiliates typically hold no shares in the central manufacturing companies.

4.2.2 Horizontal *Keiretsu*

Horizontal *keiretsu* are groups of companies engaged in a wide variety of seemingly unrelated business activities. Four of the six largest horizontal *keiretsu* are based on earlier *zaibatsu* (Mitsubishi, Sumitomo, Mitsui and Fuyo) and the other two (Dai-Ichi Kangyo and Sanwa) are centred around banks.[39] While companies in these six *keiretsu* make up only 10% of companies on the Tokyo Stock Exchange, more than half of the country's largest corporations are group members.[40] In the late 1980s, they collectively earned 18% of Japan's total net profits, made 17% of total sales, and employed about 5% of the labour force.[41]

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[38] See E. Razin, *op. cit.*, pp. 373-9; and D. E. Westney, "Japanese Multinationals in North America", in *Multinationals in North America,* L. Eden, ed. The Industry Canada Research Series, University of Calgary Press, Calgary, 1994, pp. 263-7.

[39] In fact, all horizontal *keiretsu*, including those which evolved from *zaibatsu* relationships, are centred around banks.

[40] See M. Anchordoguy, "A Brief History of *Keiretsu*", in *Harvard Business Review,* Vol. 68, No. 4, Boston, MA., July-August 1990, p. 58.

[41] See M. Anchordoguy, *op, cit.*, p. 58. Their dominance of certain sectors of the economy is greater than of others. They account for 40% to 55% of total sales in the natural resources, primary metal, industrial machinery, chemical and cement industries. See T. Hoshi, A Kashyap and D. Scharfstein, *op. cit.*, p. 37.