Keiretsu inter-firm structure

Finance

The effectiveness of the Keiretsu inter firm structure and a source of competitive advantage can be realized by looking around us and observing how the Keiretsu organizations have secretly and without any warning infiltrated in our lives and overwhelmed everything we know. We deal with the products of keiretsu firms every day, every time we pick up the newspaper or turn on the television, ride to work or eat at afast foodrestaurant. Keiretsu can be defined as a business group. The word keiretsu means a series or a system, that is, a set of interlocking business groups, shareholdings and business relationships.

Keiretsu in Japan was an inter-firm structure which surfaced as an economic miracle after the Second World War and replaced the previously practiced system offamilycontrolled monopolies known as zaibatsu. The Japanese term zaibatsu literally means property and refers to large financial and industrial conglomerates in Japan, more specifically known as the empires of Japan who had considerable control on the Japanese economy due to their size in the period extending from the Meiji era till the pacific war.

As mentioned earlier, zaibatsu were large vertically integrated monopolies with a banking company, wholly owned providing thefinance, a holding company at the very top and subsidiaries in various industrial sectors of the market. Considering its size, Zaibatsu had a major influence on the foreign and national policies of Japan, and were responsible for the core of industrial and economic activity in Japan. By the start of the Second World War the four big Zaibatsu combined had control over 60% of Japan's stock exchange, 30% of chemical and mining industries and also controlled approximately 50% of equipment and machinery market.

The big four Zaibatsu include Mitsubishi, Sumitomo, Mitsui, and Yasuda who were flourishing in Japan even at the time of worldwidedepressiondue to their maintenance of low labor cost, currency speculation and military procurement, but they were viewed with speculation as they exploited poor and in a way manipulated the dysfunctional markets and their monopolistic practices largely resulted in closed business circles.

After the surrender of Japan there was an attempt by General Douglas MacArthur under the SCAP (Supreme Commander of the Allied Powers) to dissolve Zaibatsu as they were viewed with ambivalence during the American occupation of Japan by the president Roosevelt, who was against the creation of monopolies, while the assets of other Zaibatsu were severely damaged by war.

Although the monopolistic structure of Zaibatsu and single family conglomerates does not exist in Japan, it has been replaced by horizontally integrated system of Keiretsu (Zaibatsu Dissolution, Reparations and Administrative Guidance). The structure of Keiretsu differed from the previously existing Zaibatsu in essential ways. First while zaibatsu were family owned monopolistic enterprises, keiretsu were a group of associated companies centered around a bank.

Each Keiretsu was focused around a single bank which played the role of a monitoring and an emergency bailout body. The bank had significant influence over the keiretsu as it lentmoneyto its member organizations and thus maintained equity positions in these companies. As these banks were big and powerful organizations, they could not be easily challenged by other small entities and hence one effect of the Keiretsu firm structure was to prevent hostile or aggressive takeovers in Japan (Watkins).