are junior claims makes their value sensitive to the success of the project as a whole. In effect, each upstream firm is a stake-holder in the project that results in the sale of the final good.

The interlocking stakes held by firms in the production chain differ in important ways from the cross-holding of shares. First, accounts receivable mirror exactly the production relationships within the chain. Cross-holding of shares is a blunter device that lag the shifts in the underlying production relationships. Second, and more important, accounts receivable are held by *upstream* firms (often, small and medium sized firms) against their *downstream* counterparts (final goods manufacturers). This is in the opposite direction from the archetypal picture of the large, final goods firm holding equity stakes in its smaller suppliers in a vertically integrated production structure.

The Japanese *keiretsu* mode of industrial structure has been the topic of a large literature in management and industrial organization, and can further be distinguished between the *horizontal keiretsu*, where a group of loosely affiliated firms across diverse industries are arranged around the group's "main bank" at the center, and the *vertical keiretsu* where firms are tied tightly together into the production process into a multi-layered set of sub-contracting relationships[2].

An example made famous from business school case studies is the contrast between the so-called Toyota model of production[3], where a multi-layered set of sub-contracting firms contribute over 70% of the value-added of the finished automobile produced by Toyota, to the case of General Motors,

[2] Among the many works on the topic are Aoki (1988), Hoshi, Kashyap and Scharfstein (1991), Hoshi and Kashyap (2001), Gilson and Roe (1993), and Miwa and Ramseyer (2002).

[3] See, for instance, Jeffrey Liker and James Choi "Building Deep Supplier Relationships" Harvard Business Review, December 2004.