Discussion Papers In Economics And Business

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Discussion Paper 25-16

November 2025

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Governing under high uncertainty: the strategic role of sōgō shōsha in early GVC formation

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Abstract

This study explores the role of Japan's sōgō shōsha in global value chains (GVCs) led by multinational enterprises (MNEs), reconceptualizing them as strategic governance actors. Applying Transaction Cost Economics (TCE) and firm-GVC integrative framework, we conduct a comparative case analysis of DuPont and Fast Retailing, both of which entered China in the early-1990s, a period marked by deep political and policy uncertainty, through partnerships with Mitsubishi—a leading sōgō shōsha. Our finding identifies an alternative governance structure during the early, highly uncertain stages of GVC formation: the temporary externalization of orchestration functions. We also extend the concept of credible commitment beyond its traditional application in a dyadic buyer-supplier context, showing its relevance in multi-actor contracts and even joint ventures.

Keywords: Transaction Cost Economics, entry mode research, GVC governance study, sōgō shōsha, case-oriented research method.

JEL Classification: N85 N95

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1. INTRODUCTION

Rising geopolitical tensions and recent global disruptions—most notably the COVID-19 pandemic—have called for firm's efforts to make GVCs[1]more resilient, placing risk mitigation strategies at the forefront of both managerial decision-making and academic inquiry (Kano et al., 2022; Ryan et al., 2022).

The objective of this paper is to examine the strategic role of Japan's sōgō shōsha (general trading companies) within MNE-led GVCs and their governance decisions under conditions of deep uncertainty. This study thus shifts analytical attention away from the conventional MNE-centric perspective in the extant GVC governance literature, and toward a class of peripheral but strategically consequential actors.

Despite their longstanding importance in the global economy (Jones, 1998, 2005; Jones & Khanna, 2006), sōgō shōsha remain theoretically and empirically underexamined in contemporary governance research. This oversight is in part due to their inherently invisible and elusive nature (Yoshino & Lifson, 1986). These firms often work behind the scenes to support client MNEs (Shimada, 1990; *Toyo Keizai*, 2016), typically through minority equity positions (Hennart & Kryda, 1998) or by embedding themselves in layered governance structures (Benito et al., 2011), making their activities extremely difficult to detect through conventional datasets[2].

Prior research has extensively examined an ideal or most cost-efficient governance mode to enter uncertain markets—particularly those characterized by political risk (e.g., Oxley, 1999; Henisz, 2000; Henisz & Williamson, 1999; Meyer, 2001; Delios & Henisz, 2003; see also Brouthers & Hennart, 2007 for a review). However, these insights have yet to

[1] We define a GVC as a bundle of transactions involving multiple firms across two or more countries, typically coordinated by a lead MNE (Mudambi, 2008; Buckley, 2009; Benito et al., 2019; Kano et al., 2020; Hennart & Verbeke, 2022).

[2] For example, Directory of Japanese Companies Abroad (TK data) does not capture firms with ownership stakes below 20 percent, nor does it include data on investments made through foreign subsidiary to a local entity or a third-country.

be systematically integrated with contemporary GVC governance research, likely due to different unit of analysis and conceptual priority (Benito et al., 2019). In turn, while GVC scholarship has offered rich insights into how MNEs internalize, quasi-internalize, or externalize specific functions across globally fragmented value chains (Buckley & Ghauri, 2004; Gereffi et al., 2005; Mudambi, 2008; Buckley, 2009), it generally assumes that efficient governance is organized unilaterally by MNEs that lead GVCs (Hennart, 2009; Kano et al., 2020; Debellis et al., 2024). Relatively little attention has been paid to how non-lead MNEs influence governance outcomes under environmental uncertainty, with only a few exceptions—such as Lee et al., (2020), who highlights the host-country institutional knowledge contributed by external suppliers (see also Pananond et al., 2020).

To address these interrelated gaps, sōgō shōsha offer the compelling context. We therefore pose the research question as follows: *why, how, and when are sōgō shōsha invited into MNE-led GVCs?* To explore this, it adopts a theory-driven case study method (Byrne & Ragin, 2009; Ragin, 2014; Yin, 2018), and examines two conceptually contrasting cases: DuPont, a mature U.S.-based MNE coordinating a producer-driven value chain, and Fast Retailing (FR), an emerging Japanese MNE coordinating a buyer-driven value chain. Despite their differing industry logic and organizational maturity, both entered China in the early-1990s—a period marked by considerable political and policy uncertainty—through partnerships with Mitsubishi Corporation (Mitsubishi), a leading sōgō shōsha.

To systematically analyze cases, we adopt TCE, drawing in particular on Williamson's (1996, 2008) contractual schema, which offers a comprehensive framework to understand firm's governance choice under conditions of uncertainty. Our unit of analysis is a bundle of transactions within a lead MNE's GVC in which a sōgō shōsha is embedded. While TCE traditionally treats the transaction as its basic unit of analysis (Williamson, 1996, p. 6), we extend this to encompass the broader constellation of interdependent transactions that

allows us to account for the complex, multi-actor configurations that emerge when sōgō shōsha operate in conjunction with a lead MNE, local partners, and host-country institutions.

Our core argument is that while lead MNEs typically seek to retain control over their entire GVC, under conditions of deep uncertainty—especially involving political risks—they are likely to temporarily externalize orchestration functions to reliable, non-lead MNEs such as sōgō shōsha, who possess host-country institutional knowledge. In performing orchestration, sōgō shōsha combine formal, structural safeguards (equity or contracts), with relational mechanisms, most notably "credible commitments" (Williamson, 1996) that are initiated before contractual protections and relational trusts are fully in place (Poppo & Zenger, 2002; Faems et al., 2008; Poppo et al., 2016). These commitments serve not only as a mechanism for economizing on client's "bounded reliability" (Verbeke & Greidanus, 2009) but also as an entrepreneurial, strategic tool aimed at embedding themselves within the evolving GVC architecture.

This study makes three key contributions to the global strategy and governance literature. First, we contribute to the GVC governance literature by identifying the temporary externalization of orchestration functions as a governance alternative that emerges during the early stages of GVC formation that uncertainty is more pronounced. By shifting the analytical focus beyond the dominant MNE-centric perspective, we reconceptualize sōgō shōsha as strategic governance actors rather than mere intermediaries.

Second, at the empirical level, the study illustrates how sōgō shōsha offer pragmatic governance solutions to lead MNEs navigating acute trade-offs in fast-evolving, institutionally fragile environments. The comparative cases emphasize the importance of aligning governance design with both industry-specific logics and location-specific attributes. In doing so, we advance the global strategy literature by unpacking the strategic deployment of structural mechanisms (e.g., equity, contracts) and relational mechanisms (e.g., credible

commitments). Third, at the theoretical level, we extend the TCE-based concept of credible commitments beyond its conventional application in dyadic buyer–supplier relationships. Our findings demonstrate their strategic utility in more complex, multi-actor governance arrangements—including formally structured joint ventures (JVs) that typically offer baseline safeguards and assume a degree of partner trust. In doing so, we offer a foundation for further operationalizing TCE to better account for the interplay between control and trust in inter-firm relationships, particularly within JV structures.

The remainder of this paper proceeds as follows. The next section reviews two dominant governance literature: TCE-informed entry mode research, and GVC governance study. We then present our analytical framework and research design, followed by case analyses. The paper concludes by offering four propositions that summarize our arguments and managerial implications, and suggesting directions for future research.

2. LITERATURE REVIEW

To situate this article within the broader governance literature, Table 1 presents a typology of four dyadic governance configurations, distinguished by whether the lead MNE and its counterpart are sōgō shōsha or non-sōgō shōsha. These dyads serve as the most basic building blocks for understanding how transactions are organized among GVC participants.

Table 1

Typology of governance relationships

	NON-LEAD MNE: NON-SŌGŌ SHŌSHA	NON-LEAD MNE: SŌGŌ SHŌSHA
LEAD MNE: NON-SŌGŌ SHŌSHA	Q1 (a) TCE-informed entry mode research (b) GVC governance study	Q2 **Focus of this study**
LEAD MNE: SŌGŌ SHŌSHA	Q3 upgrading strategy; role transformation among peripheral firms	Q4 intra-firm transactions (parent-child), or inter-firm transactions between two distinct sōgō shōsha etc.

Note. Prepared by the author.

Q1 represents the dominant configuration in existing governance research, comprising transactions between two non-sōgō shōsha firms. This category involves two major research streams: (a) entry mode research rooted in TCE, which mainly investigates how MNEs select governance modes to economize on costs and manage uncertainty in foreign market entry (e.g., Anderson & Gatignon, 1986; see also Brouthers & Hennart, 2007); and (b) GVC governance research, which dominantly examines how lead firms orchestrate value chains through internalization, quasi-internalization, and externalization of specific functions (e.g., Gereffi et al., 2005; Buckley & Ghauri, 2004; Mudambi, 2008; Buckley, 2009). Q3 captures a more recent trend: sōgō shōsha acting as lead MNEs, exemplified by an expansion into global brand ownership of ITOCHU, one of the leading sōgō shōsha. Within the GVC scholarship, such transformations may be situated within broader debates on supplier upgrading (Sturgeon & Kawakami, 2011; Sako & Zylberberg, 2019) and role transformation among peripheral firms (Lee & Gereffi, 2015; Lechner et al., 2020). Although promising, they are inception-stage trends in the context of sōgō shōsha, with limited empirical evidences. We thus regard Q3 as outside the present study's scope and reserve it as a fruitful avenue for future research.

Q4 pertains to intra-organizational transactions within groups, including parent–child transactions. Furthermore, while inter-firm transactions between two distinct sōgō shōsha could theoretically be categorized under Q4, such occurrences are exceedingly rare and fall outside the analytical scope of the present study.

Our study therefore focuses on Q2, lead MNE-sōgō shōsha (a non-lead MNE) dyads. To elucidate distinctive governance roles of sōgō shōsha, we juxtapose insights derived from the conventional governance literature categorized as Q1 with findings from our TCE-informed case analysis. This iterative, comparative approach enables a more nuanced, configurational understanding of the phenomenon (Fiss, 2009). We begin by reviewing the literature that characterizes Q1.

2.1.Transaction Cost Economics (TCE) and Entry Mode Research (Q1-a)

TCE has long served as a foundational framework for analyzing governance decisions at the transactional level across a wide range of organizational contexts (Hennart & Verbeke, 2022). Within international business (IB), its operationalization—pioneered by Anderson and Gatignon (1986)—established a systematic basis for entry mode research (Gatignon & Gatignon, 2010). Early studies (e.g., Anderson & Gatignon, 1986; Hennart & Park, 1993) examined how firms organize their entry into foreign markets, primarily through either contract (e.g., with distributors, suppliers, licensees, franchisees) or hierarchical mode involving the establishment of foreign affiliates. Hierarchical modes involve a further decision: whether to retain full ownership via wholly owned subsidiaries (WOSs) or to share ownership via equity JVs (Brouthers & Hennart, 2007).

A core tenet of this stream posits that when transactions involve high asset specificity and uncertainty, unified ownership (vertical integration) is preferred for safeguarding firm-specific assets (Anderson & Gatignon, 1986; Cuypers et al., 2021). Within this logic, JVs are

framed as transitional solutions (Williamson, 1996)—less efficient than full ownership but preferable in certain contexts. Many studies support the utility of JVs in politically unstable or institutionally underdeveloped markets, where local partners help mitigate transaction costs, reduce political risks, and align interests with other local stakeholders (Henisz & Williamson, 1999; Meyer, 2001).

Additionally, prior experience has been shown to influence governance outcomes under high-risk conditions. Firms with greater international experiences are more likely to opt for WOS, as they possess the internal capacity to manage complex operations (Zhao, Luo, & Suh, 2004). Recent work refines this insight by distinguishing between general international experience and institution-specific knowledge (Lee et al., 2020), highlighting the role of the latter knowledge, such as host-country political and regulatory familiarity—often acquired by external partners—in effectively managing risks.

While much of this literature focuses on the mode of entry at the point of market access, a complementary body of research has explored mode combinations (Benito et al., 2009, 2011) and governance sequences over time (Bucheli et al., 2023). The applicability of TCE has also been extended to new contexts or organizational forms, such as digitalized service MNEs (Hennart & Verbeke, 2022), demonstrating the framework's continued relevance under emerging global conditions.

2.2.GVC Governance Studies (Q1-b)

The GVC governance literature explores how lead firms (MNEs) coordinate and control globally dispersed production networks. A foundational distinction in this stream is between producer-driven and buyer-driven value chains (Gereffi, 1994, 2014). Producer-driven chains—common in industries like automobiles, electronics, and pharmaceuticals—are typically governed by manufacturers that exert control over innovation, production, and

intellectual property. Buyer-driven chains, more common in labor-intensive sectors like apparel and consumer goods, are typically coordinated by large retailers and brand-owning firms who outsource production to external suppliers. Scholars argue that flexibility-seeking MNEs, particularly those from advanced economies, generally retain control over high-value-added functions such as R&D, branding, and global orchestration, while outsourcing modular and codifiable tasks to third-party providers (Buckley & Ghauri, 2004; Gereffi et al., 2005; Mudambi, 2008; Buckley, 2009; Kano, 2018). More recent research however points to its variations. Emerging-market MNEs, operating in less developed institutional environments, may pursue more integrated governance structures that internalize a wider array of activities to compensate for institutional voids (Cuervo-Cazurra & Pananond, 2023). Yet, a critical assumption underlies both streams of research: that lead MNEs—whether from advanced or emerging economies—possess the orchestration capabilities necessary to manage intra- and inter-firm interdependencies.

Under rising geo-political tensions and recent global disruptions, a growing body of research has turned to relational (i.e., trusts) governance, arguing that they can function as a substitute or complement to structural or formal contacting **(**Kano, 2018; Kano et al., 2022; Debellis et al., 2024) or strategic governance tools (Verbeke et al., 2021). In relation to this, the previous studies identify the significance of historical ties between states (Makino & Tsang, 2011), use of interpersonal, local elite networks (Lopes et al., 2019) as key enablers of inter-firm stability within GVC governance structures.

2.3. What is Missing?

Despite extensive scholarship in both entry mode and GVC governance research, four critical gaps remain underexplored. First, GVC governance studies predominantly assume that powerful lead MNEs, endowed with global orchestration capabilities, serve as the primary

architects of governance structures (Kano, 2018; Kano et al., 2022). This assumption overlooks the mechanisms through which orchestration capabilities are acquired, supported, or delegated, particularly in early-stage or high-uncertainty contexts.

Second, while entry mode research provides rich theoretical and empirical insights into dyadic governance structures—often grounded in TCE—these insights have not fully been integrated into the GVC governance literature. In particular, how governance operates within multi-actor constellations, rather than in simple buyer–supplier dyads, remains insufficiently addressed. This fragmentation is partly due to the differing unit of analysis and conceptual priorities (Benito et al., 2009). Entry mode studies focus on transaction-level efficiency, primarily analyzing how firms align governance modes to minimize costs and manage uncertainty during foreign market entry. In contrast, GVC governance research centers on inter-firm coordination and power asymmetries within global production networks (Benito et al., 2009). The lack of integration between these perspectives limits theoretical progress in comprehensively understanding governance outcomes in multi-actor, institutionally diverse environments.

Third, although political and institutional risks are widely acknowledged as influential drivers of governance decisions (Tang & Buckley, 2020), the mechanisms firms deploy to manage such risks—particularly ex ante—remain insufficiently understood. While entry mode and GVC governance literatures identify a range of structural safeguards introduced early, these are effective under conditions of moderate uncertainty (Verbeke et al., 2021). However, under high uncertainty, where contingencies are difficult to anticipate and contractually specify, these formal mechanisms may lose efficacy (Verbeke & Kano, 2016). As a response, recent studies have begun to emphasize relational mechanisms (e.g., trust, networks, reputational capital) as complements to structural aspects (Faems et al., 2008). Yet,

there is limited understanding of how firms—especially those with limited institutional familiarity—design these integrative governance strategies in high-risk environments.

Fourth, while TCE has conceptualized hybrids—governance structures blending market and hierarchical features—and elaborated supporting mechanisms to safeguard vulnerable relationships inherent in hybrids such as credible commitments (Williamson, 1996, 2008), empirical studies of these mechanisms remain scarce. In particular, how these credible commitments operate in multi-actor transactions, not the traditional buyer-supplier settings, remains an underexplored question.

To address these interrelated gaps, this study turns to a distinct organizational form with long-standing but under-theorized relevance to global strategy: Japan's sōgō shōsha. These firms offer a compelling empirical context through which to examine alternative governance mechanisms that respond to institutional complexity, multi-actor interdependence, and ex ante costs under deep uncertainty.

2.4.Governance of Sōgō Shōsha: Historical Context

Japan's sōgō shōsha, many of which trace their origins to the late 19th century, have continued to thrive as large-scale enterprises (Jones & Khanna, 2006). These firms played a pivotal role in connecting Japan to the international economy during the Meiji era and the subsequent period of postwar industrialization. They facilitated industrial coordination across sectors and geographies, supporting both the overseas expansion of Japanese manufacturers and the entry of foreign firms into the Japanese market (Yamazaki, 1987; Yonekawa & Yoshihara, 1987; Yonekawa, 1990; Shimada, 1990; Kawabe, 1990).

In their transactions with external parties, sōgō shōsha employ long-term contracts, particularly in resource-intensive industries such as iron ore (Tanaka, 2012) and labor-intensive sectors like apparel. In addition, they frequently utilize equity-based JVs to align

incentives, mitigate transactional hazards, and address information asymmetries between parties (Delios & Henisz, 2003). Unlike their Hong Kong or Taiwanese counterparts—where trading functions tend to be dispersed across numerous independent firms—sōgō shōsha provide tightly integrated service bundles (Ellis, 2001; Dunning & Lundan, 2008, p. 219). Their privileged access to both intermediate and final product markets, combined with their ability to coordinate diverse complementary functions, has contributed to their unique ownership advantages (Dunning & Lundan, 2008, p. 779).

Following deregulation in the 1980s and the onset of prolonged economic stagnation in the 1990s, sōgō shōsha diversified beyond traditional trading activities into high value-added activities and non-trading sectors (Jones, 2005; JFTC, 2022). This strategic realignment catalyzed a shift toward increasingly outward-oriented business models, reducing dependence on domestic revenue streams and expanding their global footprint.

Despite their enduring strategic significance, sōgō shōsha remain theoretically underexplored and empirically underrepresented in the global strategy and governance literature. Most prior studies have examined them through the lens of Japan's institutional business system, emphasizing their historical affiliations with keiretsu networks (Delios & Henisz, 2000; Todeva, 2005). However, these ties have substantially weakened since the 1990s, driven by structural and institutional changes both in Japan and globally (Lincoln & Shimotani, 2009). In this study, we reconceptualize sōgō shōsha as strategic governance actors—entities that provide pragmatic solutions to lead MNEs and play a critical role in shaping GVC governance structures, particularly under conditions of high uncertainty.

3. ANALYTICAL FRAMEWORK

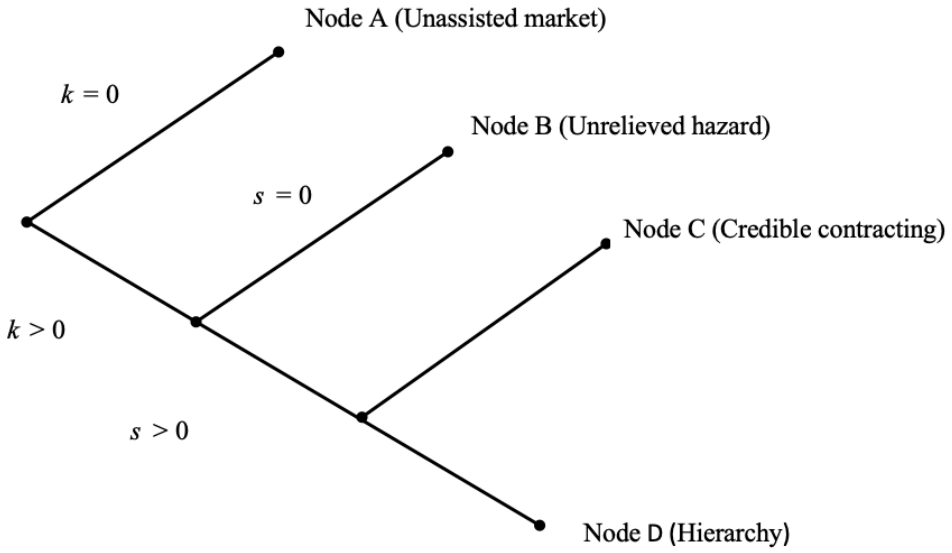
This study adopts TCE and draws on the foundational works of Williamson (1985, 1996, 2008) and subsequent key extensions. TCE offers a comprehensive framework for evaluating the efficiency of governance alternatives—markets, hybrids, and hierarchies.

TCE rests on two behavioral assumptions: bounded rationality (the cognitive limits of decision-makers) and bounded reliability (the possibility of opportunism or the limited efforts in fulfilling open-ended promises, even when acting in good faith) (Verbeke & Greidanus, 2009). These assumptions interact with two key transactional conditions: asset specificity and uncertainty (Williamson, 1996). Uncertainty is conceptualized on two levels—behavioral and environmental. Behavioral uncertainty emerges from bounded rationality (which leads to incomplete contracting), asset specificity (that drives bilateral dependency and thereby requires safeguard), and bounded reliability. Environmental uncertainty, in contrast, reflects exogenous risks, and becomes especially salient in international contexts where firms face host-country-specific hazards (Henisz & Williamson, 1999). Crucially, these two forms of uncertainty can interact and reinforce one another, amplifying governance challenges and increasing the probability of transaction failure (Henisz, 2000).

To systematically analyze cases, we use Williamson's contracting schema (1996, 2008) based on the above core tenet, which classifies governance choices according to asset specificity (k) and the presence of safeguards (s). This schema is illustrated in Figure 1.

Figure 1

Simple contracting schema



Note. Adopted from Williamson (1996, 2008), illustration by the author.

Node A: when $k = 0$ and $s = 0$, transactions involve general-purpose assets and require no safeguards. Market governance is the most efficient, relying on legal enforcement in anonymous, arm's-length transactions. Node B: this represents governance failure: transactions involve asset specificity ($k > 0$) but lack safeguards ($s = 0$), rendering them highly vulnerable to opportunism and maladaptation. Such configurations are unsustainable in competitive environments. Node C: when $k > 0$ and $s > 0$, transactions exhibit moderate asset specificity. Hybrids—such as long-term contracts, franchising, or subcontracting—become appropriate. Transactions subject to ex-post hazards benefit when appropriate safeguards or credible commitment mechanisms are implemented ex-ante ($s > 0$). Credible commitments, often tied to irreversible, specialized investments, involve reciprocal acts designed to safeguard relationships (Williamson, 1996). Node D: when asset specificity is positive ($k > 0$) due to uncertainty, hierarchical governance—notably WOSs—provides

superior coordination and enables cooperative adaptation through unified ownership and authority. Although the original schema does not include JVs, we map them on the way to Node D, based on the TCE interpretation of JVs as temporally organizational forms often used to facilitate entry into foreign markets (Williamson, 1996, p. 118). We build on this schema to better understanding the logic of the mode selection. The next section details our research design.

4. METHODOLOGY

The paper adopts a case-oriented research method (Byrne & Ragin, 2009; Ragin, 2014; Yin, 2018). A major advantage of this method is its ability to identify causal sequences and clarify the mechanism of complex systems (Byrne & Ragin, 2009, p. 2). These strengths align with the objectives of our study, which seeks to unpack when, how and why sōgō shōsha are invited to a lead MNE's GVC. Building on this methodological foundation, our research design rests on the theory-driven approach.

4.1. Theory-Driven Approach

We begin by establishing the theoretical boundaries of the case (Fiss, 2009). This approach enables us to identify both commonalities and variations across instances of the phenomenon under investigation and enhance a configurational understanding of each case (Rihoux & Lobe, 2009, p. 236; Ragin, 2014). Using TCE as our analytical framework, we systematically assess how governance structures adapt under divergent environmental and firm-specific contexts. This theory-guided comparative analysis allows us to derive generalizable insights and propose propositions applicable to broader settings (Rihoux & Lobe, 2009; Ragin, 2014).

4.2. Theoretical Boundaries: Case Selection

The two focal cases—DuPont–Mitsubishi and FR–Mitsubishi—were selected based on the set rules (e.g., polar types) (Pettigrew, 1990; Fiss, 2009; Yin, 2018). Both cases are situated within a common temporal and spatial boundaries: the two entered China in the early-1990s, a period marked by significant political and policy uncertainty through meticulous arrangement of Mitsubishi. Despite this shared setting, the cases differ in industry logics and organizational maturity. First, they reflect distinct Gereffi's (1994, 2014) chain types: DuPont orchestrates a producer-driven chain centered on chemical and polyester production, while FR leads a buyer-driven chain in the fast fashion sector. Second, they differ in lead MNE characteristics. DuPont represents a mature, globally established MNE with international and sectoral experience (Chandler, 2005); FR was an emerging MNE with limited global orchestration capabilities at the time of entry. Among the seven major sōgō shōsha, Mitsubishi was selected due to its strong alignment with our research objectives, the diversity of its project portfolio, and its highest average investment per project in China in the 1990s, based on data provided by the 21st Century China Research Institute.

4.3.Theoretical Boundaries: Unit of Analysis

The unit of analysis in this study is a bundle of transactions within a lead MNE's GVC in which a sōgō shōsha is embedded. While TCE traditionally treats the transaction as its basic unit of analysis (Williamson, 1996, p. 6), we extend this to include the broader constellation of interdependent transactions that allows us to account for the complex, multi-actor configurations that emerge when sōgō shōsha operate in conjunction with lead MNEs, local partners, and host-country institutions. In addition, rather than treating the GVC as a single, unified system, we adopt a disaggregated approach that breaks down the value chain

into its constituent transactions, following the analytical framing proposed by Benito et al. (2009).

This integrative approach that links firm-level and GVC-level analyses is necessary to capture the full range of functions performed by sōgō shōsha within the governance architecture of a lead MNE, while preserving the microanalytic rigor that is central to TCE.

4.4. Data Collection and Sources

Our empirical material is derived from three principal data categories. (1) Public records: this includes investor reports, industry journals, and newspaper such as *Nikkei*. These documents provide institutional background, and key developments in industry structure; (2) large-N datasets: we utilized comprehensive databases from the Mitsubishi Research Institute and the 21st Century China Research Institute to identify cases that align with our research context; and (3) Executive interviews: We conducted a series of in-depth interviews with a former Director of the Planning Department and Assistant to the Regional Officer at Mitsubishi Corporation (China) Co., Ltd., who was stationed in Beijing during the 1990s. The interviews were held on February 6, 2023 (16:00–21:00), May 7, 2023 (15:00–16:00), and September 3, 2024 (12:00–14:00). Additional industry-specific insights—particularly regarding Mitsubishi's textile operations in China—were obtained through this interviewee, who relayed information from a former manager of the firm's textile division. These interviews provide critical insights into their operations and local strategies. Across these sources, we employ interpretive triangulation to infer governance mechanisms and organizational logic from partial evidence and to enhance construct validity.

5. CASE STUDIES

This section presents two comparative case studies: FR–Mitsubishi and DuPont-Mitsubishi. These cases are situated within the context of China's economic liberalization following its official transition to a socialist market economy in 1992. While this transition opened significant opportunities for foreign direct investment, it also generated high levels of institutional and environmental uncertainty. As Montinola et al. (1996) notes, although economic reforms in China were aggressively pursued, institutional reforms lagged behind. China at the time lacked critical market-supporting institutions, including robust protection for intellectual property rights, a transparent legal framework for commercial transactions, and an independent judiciary (Montinola et al., 1996; Schotter & Teagarden, 2014). These institutional deficiencies heightened the risk of expropriation, arbitrary policy reversals, and opaque regulatory interventions—particularly for foreign firms undertaking transaction-specific investments (Williamson, 1996). The two cases illustrate how Mitsubishi helped each firm mitigate the hazards associated with early-stage GVC formation. In the analysis that follows, we examine not only the actual governance choices made but also the alternative paths considered yet rejected by each firm.

5.1. Case Study I: Fast Retailing–Mitsubishi

Fast Retailing Co., Ltd., the parent company of UNIQLO, is a global fashion retailer in Japan. The company opened its first UNIQLO store in 1984 and switched to a specialty retailer of private-label apparel model in 1987 and started to outsource manufacturing to overseas factories in China and other low-cost locations. It began its international retail expansion in 2001, opening its first overseas store in the United Kingdom (Fast Retailing, 2024).

5.1.1. Empirical contexts

The global fast fashion industry underwent a major transformation during the 1990s, driven by innovations such as lean retailing, just-in-time inventory management, and full-package outsourcing (Gereffi & Frederick, 2010). For firms in this industry, agility and responsiveness became critical strategic imperatives. Intensifying competitive pressures compelled firms to consistently reduce costs, compress lead times, and maintain product quality (Mehrjoo & Pasek, 2016). Firms responded through divergent governance choices during this period. Spain's Inditex (Zara) implemented a vertically integrated structure, investing in in-house manufacturing to enable tight coordination across design, production, and distribution (Bonnen, 2002; Gereffi et al., 2005). By contrast, FR pursued a subcontracting-based model, concentrating production in low-cost regions—particularly China[3].

5.1.2. Role of sōgō shōsha

Mitsubishi assumed multifaceted roles in FR's early-stage globalization efforts for structuring and managing FR's regional production and logistics platform in the 1990s[4], with China as the focal point—an environment characterized at the time by acute political and policy uncertainty. As one former Mitsubishi COO explained, "In this SPA initiative, we committed to taking full responsibility for two crucial activities for the retailer: product management and logistics. We mobilized a wide array of our resources to create and develop the value chain—from product planning and raw material procurement to manufacturing and logistics" (Mitsubishi, 2011, p. 136). Following these earlier pledges, Mitsubishi deployed personnel across China with extensive local experience, and cultural fluency to coordinate on-

[3] [3] *Nikkei Shimbun*, April 5, 2001, ユニクロ商社を走らす[Uniqlo drives shōsha].

the-ground operations, resolve unforeseen bottlenecks, and ensure real-time adaptation. This human capital advantage was emphasized by one executive dispatched to China in the 1990s, "A sōgō shōsha's most valuable asset is its people. The key lies in leveraging our portfolio's comprehensiveness—across product, geographic locations, and functions—by mobilizing our human assets."

In addition to this coordination, Mitsubishi also served as a financier, extending credit to undercapitalized local factories, many of whom were critical to the uninterrupted flow of goods[5]. The next section examines the governance logic for this externalization through the application of Williamson's contracting schema.

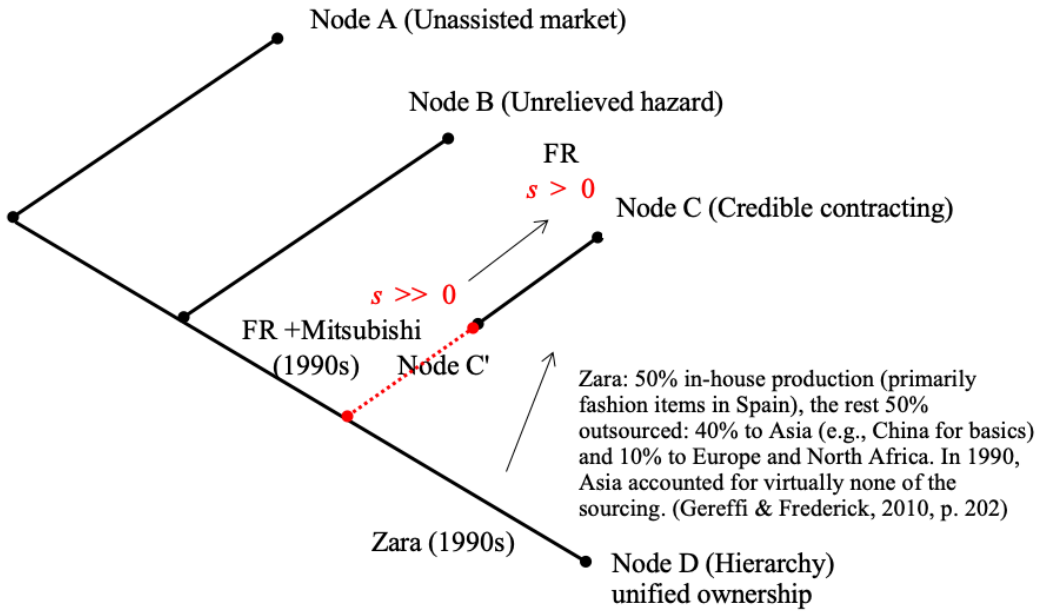
5.1.3. Governance logic for mode selection

Fast fashion industry has experienced a shift in dominant governance structures — from Node D (hierarchy), exemplified by Zara's early vertically integrated structure, to Node C (credible contracting), which emphasizes flexibility and incentive alignment through arm's-length contractual arrangements (Gereffi & Frederick, 2010). FR was at the forefront of this change. However, Node C had presented substantial governance challenges. While transactions in fast fashion are often viewed as generic—standardized and low in asset specificity ($k > 0$)—FR's product portfolio involved technically sophisticated textile inputs, including proprietary fibers developed by Japanese manufacturer Toray (Choi, 2011). Furthermore, China's institutionally volatile environment created conditions of $k \gg 0$ and $s \gg 0$—that typically justify hierarchical governance (Node D). However, industry's competitive imperatives rendered this theoretically ideal option infeasible (Figure 2).

[5] *Nikkei Shimbun,* March 8, 2002, 三菱商事リスクに負けない組織へ [Towards an organization that can withstand risk].

Figure 2

FR's governance choice



Note. Adopted from Williamson (1996, 2008), illustration by the author.

GVC governance literature typically posits that flexibility-seeking MNEs retain control over high-value-added, knowledge-intensive functions while outsourcing standardized or commoditized tasks—such as production and logistics—to external suppliers (Buckley & Ghauri, 2004; Gereffi et al., 2005; Mudambi, 2008; Buckley, 2009). This division of labor is grounded in the assumption that outsourcing reduces production costs, provided that the associated transaction costs—stemming from coordination and interdependence management—do not outweigh these benefits (Strange & Humphrey, 2019, p. 1402). This raises a question: how can firms reduce these two types of costs in contexts where operational flexibility is inherently traded off against governance control? Our case offers a direct response to this puzzle, by revealing a complementary governance pathway—Node C'—a sōgō shōsha-embedded configuration that precedes and enables the Node C (i.e., direct

outsourcing by a lead MNE). In this arrangement, FR delegated orchestration responsibilities for production and logistics to Mitsubishi, a partner with host-country institutional knowledge and coordination expertise. This structure enabled the firm to mitigate transaction hazards without sacrificing the operational agility critical to competing in the fast fashion industry.

Thus, under certain conditions, an emerging lead MNE may temporarily externalize orchestration functions not as a permanent abdication of control, but as a context-contingent adaptation to environmental uncertainty and capability gaps. Node C therefore emerges as a viable governance alternative when:

1. Asset specificity is high ($k \gg 0$) and coupled with substantial political and regulatory risks ($s \gg 0$), resulting in elevated high transaction costs; and
2. Industry imperatives prioritize the operational agility and production cost-efficiency, making hierarchical governance (Node D) impractical.

5.2. Case Study II: DuPont–Mitsubishi

Founded in 1802 as a gunpowder manufacturer, DuPont had, by the late twentieth century, become a global chemical powerhouse. During the 1980s and 1990s, its giant production facilities delivered significant economies of scale, while strategic diversification into closely related industries generated economies of scope across multiple markets (Chandler, 2005, p. 20). Casson and Lopes (2013, p. 38) highlight DuPont's foreign investment strategy as notably cautious and calculated, particularly in contexts involving heightened political risk and the need to safeguard proprietary technologies. The case demonstrates that even a well-established, globally experienced firm may strategically rely on an external governance actor to navigate high political and policy risks in complex foreign environments.

5.2.1. Empirical contexts

During the early 1990s, Chinese local governments and state-owned enterprises faced increasing pressure to upgrade their upstream industrial infrastructure. While downstream manufacturing had expanded rapidly throughout the 1980s, upstream operations remained inefficient, constrained by outdated machinery, excess labor, and volatile input costs, particularly for raw materials (Tsuji, 2000). These structural deficiencies created latent demand and market potential for foreign investors. However, foreign direct investment in these segments notably chemical and fibers, remained limited even by the mid-1990s (Tsuji, 2000). The barriers were substantial: weak intellectual property protection, inconsistent regulatory enforcement, and a fragile legal environment collectively exposed transactions involving advanced technologies to high levels of risk (Williamson, 1996). As such, even for globally experienced firms like DuPont, entry into China's chemical sector during this period entailed considerable operational challenges.

5.2.2. Role of sōgō shōsha

The involvement of Mitsubishi began in 1991 with a forward-looking move: the acquisition of Chemtex (Mitsubishi, 1991), a U.S.-based engineering firm founded by former DuPont engineers. Chemtex had earned a strong reputation for its ability to safely transfer proprietary technologies to third parties—an attribute crucial in high-risk environments like China. While the acquisition came at a significant cost, it served a dual strategic purpose. On one hand, it signaled Mitsubishi's long-term commitment to safeguarding DuPont's intellectual assets, and on the other, it created an organizational buffer between DuPont and its Chinese partners, and Mitsubishi itself. This structural layer allowed Mitsubishi to oversee project execution through Chemtex, while mitigating the risk of local technology misappropriation—an ever-present concern in China's nascent legal environment.

Beyond technical supervision, Mitsubishi assumed the critical role of government liaison. It actively brokered regulatory approvals across central and local government bodies, helping craft a JV structure that granted DuPont a majority foreign ownership stake—an unprecedented achievement in China's polyester sector at the time[6]. Recognizing the need for additional legitimacy and governance discipline, Mitsubishi also brought the International Finance Corporation (IFC), a member of the World Bank Group, into the ownership structure. The inclusion of international public authority helped elevate the project's credibility and impose a regime of international compliance standards that reassured JV participants of regulatory reliability. To further reinforce third-party oversight, Mitsubishi arranged a syndicated loan from 15 international private banks. This sequence of actions laid the groundwork for the formation of a four-party JV in 1995, comprising DuPont (35%), Mitsubishi (30%), Suzhou Chemical Fiber Co. (25%), and the IFC (10%).

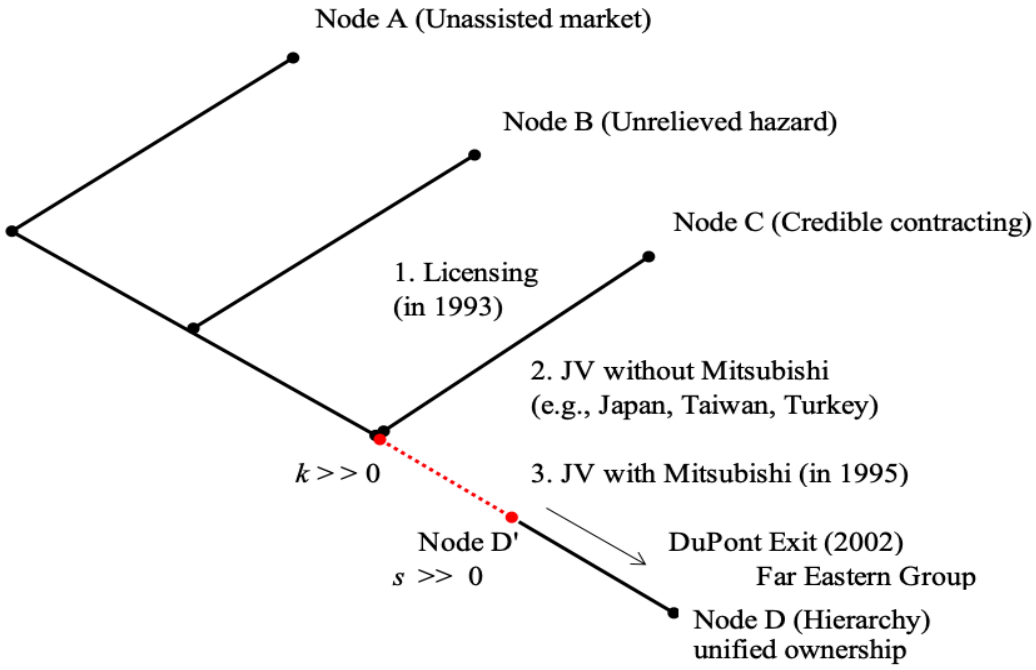
5.2.3. Governance logic for mode selection

The chemical industry is characterized by a high degree of asset specificity ($k \gg 0$), involving large-scale, specialized, and non-redeployable investments—particularly in the processing of crude oil and related materials. The elevated political and regulatory uncertainty that defined China's institutional environment in the early-1990s created a strong need for robust safeguarding mechanisms ($s \gg 0$). However, full foreign ownership was legally prohibited under China's investment regime at the time, rendering the theoretically optimal solution of Node D (hierarchy) infeasible for DuPont. During the 1990s, as part of its global expansion strategy, DuPont evaluated three governance modes corresponding to distinct nodes in Williamson's schema (Figure 3).

[6] *Nikkei Shimbun*, October 21, 1995, 中国で化学繊維合弁 [Chemical fiber joint venture in China].

Figure 3

DuPont's governance choice



Note. Adopted from Williamson (1996, 2008), illustration by the author.

The first option, initiated in 1993, involved a license-based JV (Node C), wherein Mitsubishi and its subsidiary Chemtex held minority equity stakes, while the majority was owned by a Chinese partner. In this structure, DuPont granted exclusive rights in its proprietary technologies to the JV, without holding an equity position itself[7]. This structure—combining licensing with equity—is often employed to enhance contractual control in transactions exposed to behavioral hazards (Benito et al., 2009). However, in the context of China's volatile policy environment and institutional fragility, this configuration proved insufficient and was ultimately never operationalized.

[7] *Nikkei Shimbun*, August 27, 1993, 三菱商事、中国でポリエステル合弁 [Mitsubishi Corporation to establish polyester joint venture in China].

The second option, adopted in more institutionally stable markets such as Japan (1995), Taiwan (1997), and Turkey (1999), involved 50:50 joint ventures with local partners[8]. These equal-equity structures allowed DuPont to combine its proprietary technologies with partners' complementary capabilities in engineering and distribution (Karol et al., 2002). Yet, in the Chinese context, such symmetric governance arrangements were too costly to enforce without additional instruments.

DuPont opted for a quadripartite JV—a configuration we categorize as Node D'. This structure preserved DuPont's strategic influence over key decisions while externalizing orchestration responsibilities to Mitsubishi. It was designed to mitigate what Henisz (2000) characterizes as a double hazard scenario: the simultaneous presence of firm-level behavioral uncertainty and state-level political risk (including expropriation). Whereas prior literature typically addresses these risk dimensions separately or treats political risks as static exogenous factors, our case highlights the importance of designing governance structures that anticipate their interactive effects.

Under such conditions, MNEs confront a governance trade-off in ownership structuring: majority ownership can help mitigate behavioral hazard by enhancing control, but it simultaneously heightens exposure to political hazards such as regulatory retaliation or expropriation; a minority stake can limit political risk exposure but weakens the firm's contractual safeguards against opportunistic behavior.

The solution was to limit DuPont's stake to 35%, while Mitsubishi and IFC held 30% and 10% respectively—together forming a 75% ownership bloc. This arrangement achieved two critical objectives: (1) reducing DuPont's exposure to political risk through limited direct equity, and (2) ensuring robust governance through majority control by credible allies.

[8] *WWD*, June 5, 1995. DuPont enters joint venture with Teijin for Nylon in Japan; *WWD*, April 16, 1999, DuPont, Sabanci go 50-50 in foreign polyester venture; Karol et al. (2002).

In sum, Node D' is particularly effective under the following conditions:

(1) high asset specificity ($k \gg 0$), necessitating strong ex ante safeguards ($s \gg 0$); and

(2) the presence of "double hazard" scenarios—requiring governance architectures that account for their interplay.

6. CROSS-CASE DISCUSSION

This section compares two case results which are summarized in Table 2 and develop four propositions surrounding sōgō shōsha's transactions that address the research question. Propositions 1 through 3 concerns governance decisions made before or during market entry, we hold constant the following baseline conditions: the coexistence of high asset specificity ($k \gg 0$) and strong safeguard requirement ($s \gg 0$), necessitated by political risk, and regulatory ambiguity. The Proposition 4 concerns post-entry governance evolution.

Table 2

Cross-case comparison

Feature	Fast Retailing-Mitsubishi	DuPont-Mitsubishi
Industry logic (GVC)	Buyer-driven GVC	Producer-driven GVC
TCE classification	Node C (credible contracting)	Node D (hierarchy)
Organizational maturity	Emerging MNE with limited global local experience	Established MNE with global experience but limited local experience
Asset specificity	Fast fashion, tech-driven ($k \gg 0$)	Chemicals and fiber, high-tech ($k \gg 0$)
Requisite safeguards	$s \gg 0$	$s \gg 0$
GVC governance mechanism (Mitsubishi's credible commitment)	Mitsubishi-embedded subcontracting (specialized human/physical assets)	Mitsubishi-embedded quadripartite JV (Chemtex M&A and 30% equity stake)
Function of Mitsubishi	externalized production and logistics orchestration	externalized orchestration

Strategic logic for mode choice	reduce both production and transaction costs, while retaining control	manage “double hazards” at state and firm levels

Note. Compiled by the author.

6.1.Proposition 1: Externalizing Orchestration

Our analysis reveals a recurring governance logic. Both FR and DuPont confronted acute governance trade-offs upon entering China in the 1990s, under common baseline ($k \gg 0;\ s \gg 0$). For FR, operating within a fast-moving, buyer-driven value chain, the primary challenge was to minimize both production costs and transaction costs. This created trade-offs between retaining operational flexibility and maintaining effective control over subcontracted activities. In contrast, DuPont, orchestrating a capital-intensive, producer-driven value chain, confronted a “double hazard” scenarios—exposure to both state-level political risks and firm-level behavioral uncertainties. Its primary governance dilemma centered on ownership structuring—balancing the protection afforded by majority control against the risk exposure it entailed. In addition to these differences, both firms commonly lacked deep host-country institutional knowledge at that time. DuPont, though globally experienced, was unfamiliar with the Chinese regulatory environment[9]; while FR, as an emerging MNE, had little international experience overall. These knowledge deficits amplified the costs and risks associated with conventional governance modes, rendering them either impractical or prohibitively costly. However, these constraints simultaneously opened a strategic window for Mitsubishi, which possessed superior local institutional knowledge. By assuming orchestration responsibilities, Mitsubishi mitigated the liabilities faced by both lead MNEs. While such governance arrangements remain underexamined in the current literature, our

[9] *Nikkei Shimbun*, October, 21, 1995, 蘇州デュポン買収で合意 [Agreement reached to acquire Suzhou DuPont].

findings suggest they constitute viable alternatives under particular combinations of environmental uncertainty and organizational limitations. Accordingly, we offer:

Proposition 1: *Under baseline conditions ($k \gg 0$ and $s \gg 0$), when a lead MNE, with limited host-country institutional knowledge, faces acute governance trade-offs, orchestration functions are likely to be temporarily externalized to a non-lead MNE (e.g., sōgō shōsha).*

6.2.Proposition 2: Credible Commitments

Both cases demonstrate that Mitsubishi assumed disproportionately high investment risks during the formative phases of GVC development. Specifically, Mitsubishi undertook significant transaction-specific investments—the acquisition of Chemtex in the DuPont case and the deployment of specialized human assets in the FR case. Crucially, these early investments were made without immediate returns or reciprocal guarantees. This behavior can be interpreted through two interrelated lenses: TCE and strategic positioning: From a TCE perspective, Mitsubishi's actions exemplify the logic of credible commitments—early, asset-specific investments aimed at safeguarding transactions and enhancing reliability under high-risk conditions (Williamson, 1996; 2008). Notably, these commitments were made prior to the establishment of formal governance structures or the development of relational trust; From a strategic standpoint, Mitsubishi's deep market knowledge (relatively low bounded rationality) enabled it to recognize the long-term strategic value of the project. While Mitsubishi may have anticipated that the lead MNEs would eventually gain local knowledge and reduce their dependence, it nonetheless viewed these early commitments as strategically valuable. This reasoning is captured in the words of a former Mitsubishi executive: "It's not that DuPont chose us as a partner. It is crucial to strategically position yourself to be chosen. In business, you can't afford to lose out, whether you are on a buyer side or selling side. Strategic advantage means staying ahead." This perspective underscores that Mitsubishi's

initial commitments not only served as a mechanism to economize on bounded reliability, but also functioned as tools for establishing long-term positions within evolving GVC architecture. We thus offer:

Proposition 2: *Under baseline conditions ($k \gg 0$ and $s \gg 0$), when a non-lead MNE (e.g., sōgō shōsha) see the strategic value to the project, it is likely to offer credible commitments to safeguard relationships and secure a durable position within the evolving GVC.*

6.3.Proposition 3: Credible Commitments within JV Structures

Our findings extend the TCE-based concept of credible commitments beyond its conventional application in traditional theoretical domain. This concept has been applied in the context of dyadic buyer–supplier relationships (e.g., Bhardwaj & Ketokivi, 2021), and within hybrids such as franchising and subcontracting settings where transactions are coordinated through private ordering mechanisms rather than formal authority (Williamson, 1996, 2008).

Our analysis of both cases demonstrates that their strategic utility in more complex, multi-actor governance arrangements. Notably, the DuPont case reveals that it is employed *within* formally structured mechanisms such as JVs. For example, Mitsubishi assumed a 30% equity stake within the DuPont's JV—substantially higher than the range of 5–15% typically observed in similar arrangements. This unusually large commitment raises a critical question: Why were such extensive commitments necessary in a governance form that ostensibly offers baseline safeguards and presumes a partner trust? We argue that the answer lies in the double hazard scenario DuPont encountered under conditions of $s \gg 0$ *and* $k \gg 0$. In such environments, formal control mechanisms alone may be insufficient to ensure transaction stability. Mitsubishi's substantial equity investment thus functioned as an additional credible commitment to stabilize the venture under high political and policy risks. We thus offer:

Proposition 3: *Under baseline conditions* ($k \gg 0$ *and* $s \gg 0$)*, a non-lead MNE (e.g., sōgō shōsha) is likely to offer credible commitments even within formally structured governance mechanisms such as joint ventures.*

6.4.Proposition 4: Governance Evolution

In both cases examined, Mitsubishi's involvement was concentrated during the formative stages of GVC development. Its embedded governance role served as a cost-efficient mechanism that enabled the lead MNEs to mitigate entry risks under conditions of deep uncertainty. However, this role proved temporary, giving way to more conventional governance structures as the lead firms accumulated local experience or realigned their strategic priorities (see Figure 2 and Figure 3). In the FR case, governance evolved from a Mitsubishi-embedded orchestration structures (Node C') to direct subcontracting arrangements (Node C) by the mid-2000s[10]. As FR deepened its operational familiarity with the Chinese market and strengthened internal capabilities, the need for external orchestration diminished.

A parallel pattern is observed in the DuPont case. As DuPont strategically shifted its focus from manufacturing toward a more R&D-driven strategy, DuPont exited its JV in China in 2002. For this exit, Mitsubishi facilitated the ownership transfer to a new owner Taiwan's Far Eastern Group. Mitsubishi retained a 10% equity stake alongside DuPont to ensure an orderly handover[11]. Once the new JV structure stabilized, both Mitsubishi and DuPont divested remaining stakes, allowing Far Eastern Group to assume full ownership that represents the governance shift to Node D, as predicted by TCE. These cases collectively underscore the temporary dimension of orchestration delegation. The governance role of a

[10] *Nikke Shimbun*, April 5, 2001, ユニクロ商社を走らす [Uniqlo drives shōsha]
[11] *Senken Shimbun, Sen-i-News*, April 25, 2002, 蘇州デュポン買収で合意 [Agreement reached to acquire Suzhou DuPont].

non-lead MNE is activated under specific conditions but is gradually phased out as the lead MNE internalizes orchestration functions or reorients its strategic trajectory. This temporality reveals the dynamic and adaptive nature of governance evolution in GVCs. We thus offer:

Proposition 4: *As a lead MNE accumulates host-market institutional knowledge or strategically revise their initial commitments, early-phase governance structure which a non-lead MNE is embedded, tends to evolve into more conventional forms.*

7. MANAGERIAL IMPLICATION

The growing fragmentation of GVCs, marked by highly specialized and geographically dispersed activities (Contractor et al., 2010), has significantly increased coordination demands and amplified bounded rationality (the inability to process complete information) challenges (Kano, 2018). These structural complexities have been further exacerbated by rising geopolitical tensions and post-pandemic disruptions, which have exposed firms to greater vulnerabilities throughout their GVCs (Kano et al., 2022). In such volatile environments, bounded rationality often gives way to mutual bounded reliability—a condition in which even capable actors find it difficult to uphold prior commitments (Verbeke & Greidanus, 2009). These dual limitations—bounded rationality and bounded reliability—reinforce one another, making it increasingly difficult for MNEs to design and enforce efficient governance structures.

The common strategic reaction to such conditions is to stop or postpone investments altogether. However, this risk-averse strategy comes at the cost of foregoing high-reward opportunities (Casson & Lopez, 2013). Instead of retreating from risk, our study proposes a governance alternative: the temporary externalization of orchestration functions to reliable partners that possess host-country institutional knowledge. Drawing on two case studies, we

show how Mitsubishi delivered tailored governance solutions for lead MNEs facing acute trade-offs, shaped by distinct industry logics and strategic objectives.

The managerial implication concerns the design of effective and smart governance strategies in uncertain environments. The cases examined suggest that such strategies require a judicious combination of structural and relational mechanisms. Across two cases**,** Mitsubishi aligned governance designs with industry-specific imperatives and location-specific attributes. Such formal instruments—equity or contract—remain essential, yet, our study also underscores the strategic value of credible commitments initiated early, prior to the full establishment of formal governance structures or the maturation of relational trust. For instance, Mitsubishi undertook asset-specific investments and made unilateral pledges at early stages of its partnerships, without expecting immediate returns or reciprocal guarantees. These commitments not only functioned as safeguards to enhance partner reliability, but also served as strategic positioning tools grounded in foresight. Through such actions, Mitsubishi was able to secure durable advantages within evolving GVC architectures.

In this regard, our findings reaffirm Williamson's (1996, p. 48) Machiavellian insight that "the wise prince is one who seeks both to give and to receive credible commitments." For managers operating in high-risk environments, this principle advocates a proactive rather than reactive posture. Instead of passively awaiting signals of reliability from counterparts, firms may gain strategic advantage by initiating credible commitments—even unilaterally—through targeted investments. The potential returns from such early commitments can be significant. In the DuPont case, Mitsubishi ultimately recouped its investment through capital gains from the sale of its JV stake to the Far Eastern Group. In the FR case, it accrued not only financial returns[12] but also reputational capital, with CEO Tadashi Yanai praising the firm as "a

[12] *Nikkei Sangyo Shimbun*, May 15, 2003, 三菱商事、製造小売りの黒子 [Mitsubishi Corporation, a behind-the-scenes player in manufacturing and retail].

company with an organizational culture that values trust" (*Toyo Keizai*, 2016, p. 57). The governance approach identified in this study—combining structural safeguards with early, relationally oriented credible commitments—offers a practical template for managers, who seek to secure durable positions within evolving GVC architectures, and pursue opportunities in environments that more risk-averse competitors might forgo.

8. FINAL REMARKS

This study advances a set of TCE-informed propositions based on highly contextualized case evidence, with particular emphasis on the strategic role of Japan's sōgō shōsha in the early stages of GVC formation. By examining governance mode selection in two cases characterized by distinct industry logics and firm-specific attributes, our findings offer broader empirical insights into how orchestration functions can be externalized. At the same time, the distinctive organizational evolution of sōgō shōsha—shaped by Japan's developmental state model and long-term industrial coordination, notably zaibatsu and later keiretsu affiliations—constitutes a critical boundary condition. This specificity can constrain the direct generalizability of our findings to other types of trading companies or international intermediaries. Nonetheless, structural and functional parallels between sōgō shōsha and other large business groups, particularly Korean chaebols or certain Latin American conglomerates shaped by collectivist cultural norms may present fruitful opportunities for comparative research (Lee et al., 2022). Future research therefore could benefit from conducting cross-national studies of these companies and exploring governance mechanisms including the interplay between control and trust. Given that keiretsu largely eroded by the mid-2000s (Lincoln & Shimotani, 2009), longitudinal designs would be valuable by tracing and comparing how governance mechanisms of these firms evolve over time as they adapt to new technological and geopolitical disruptions. Finally, more granular empirical inquiry into the

role of sōgō shōsha across diverse industries may offer further insights into the dynamic interplay between lead and non-lead MNEs in GVC governance.

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