

Borderless companies versus born globals: Why we do need another label

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Abstract

This article is intended to show why borderless firms should be distinguished from traditional born global firms (BGs). Borderless firms have an internationally dispersed configuration of downstream, upstream and support value-added activities, an entrepreneurial team not bounded by a home base, and multinational founders, management teams and/or a multinational workforce. The concept of borderless firms emerged from analysis of empirical evidence and is intended to countervail the excessive focus of BGs literature on downstream activities. Drawing from five case studies, we found that borderless firms may be the result of ex-ante planning. However, most often, the internationally dispersed configuration of value chain activities seems to emerge from effectuation approaches, stemming from networking, including unexpected interactions, which may be envisaged as instruments to overcome constraints or to explore new business opportunities. The article shows that borderless firms present features which differentiate them from traditional BGs. Implications for entrepreneurs and researchers are provided in the concluding section.

Keywords: Born Globals, borderless firms, value chain configuration, international activities, effectuation, networks.

JEL classification: M13, M16, F23, F61.

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1 Introduction

The process of firm internationalisation has undergone significant changes in the last 25 years. While there are still companies that follow a gradual process of international expansion, a new breed of firms has adopted a fast-outward strategy, expanding internationally since (or almost since) inception. They have been called different names, international new ventures (INVs) and born globals (BGs) being the most common (Oviatt & McDougall, 1994; Knight & Liesch, 2015). A BG was defined as a “company that has achieved a foreign sales volume of at least 25% within three years of its inception and that seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries” (Andersson & Wictor, 2003:254).

However, following the path of Kuivalainen, Sundqvist and Servais (2007) and Mathews and Zander (2007), other researchers have argued that the concept of BGs has focused downstream, granting insufficient attention to international sourcing activities (Simões, da Rocha, Mello & Carneiro, 2015; da Rocha, Simões, Mello & Carneiro, 2017). This downstream approach to BGs has led, according to these authors, to the implicit assumption that BGs were established in a home base, that provided the foundation for international expansion (Kuemmerle, 2005). Simões and others (2015) argued that an increasing number of INVs show a configuration that defies the home base logic, exhibiting an internationally dispersed value chain (almost) since inception. These firms are what we call Borderless. According to da Rocha and others (2017:124), a “borderless firm presents the

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following characteristics (or a combination of them): (i) value-added activities dispersed across different countries and regions from the beginning (or shortly thereafter); (ii) entrepreneurs not bounded by a home base; (iii) multinational founders and/or management teams; and (iv) a multinational workforce”.

This article draws upon this research stream to elaborate further on the differences between Borderless firms and traditional BGs.

2 Borderless firms and traditional BGs

The pioneering research on INVs and BGs envisaged these firms as profiting from internationally dispersed activities either downstream (sales) or upstream (sourcing). This is clear in Oviatt & McDougall (1994:49)’s path-breaking article on INVs, which argued that these firms derived “significant competitive advantage from the use of resources and the sale of outputs in multiple countries”; a similar perspective was provided by Jolly, Alahuta, and Jeannet (1992). Oviatt and McDougall (1995:35) suggest that in these firms entrepreneurs “loosen the ties that bind their business thinking to a single country or culture”. However, extant literature has step-by-step focused just on marketing and sales, leaving sourcing aside. Increasingly, BGs have been characterised on the basis of international market scope, assuming (albeit implicitly) that most, if not all, upstream activities are located in a single (the home) country. As da Rocha and others (2017:426) remark, Jones and others (2011) literature review of international entrepreneurship (and BGs) research mentions only 2 (out of 323) studies that escape the foreign market sales focus.

A relevant example of this perspective is provided by Kuemmerle’s (2005) “zone of balanced expansion”. While recognizing the existence of an increasing number of companies located on different countries from inception, Kuemmerle (2005) argues that using a single

home base increases the odds of new firms’ success, reducing internationalisation risks.

The borderless argument has different concerns. Mainly drawing on case studies, it has focused on understanding how a borderless configuration emerges and develops (Simões and others, 2015) and on “why and how have certain new ventures developed early on an international configuration of value system activities across several countries and regions of the world” (da Rocha and others, 2017:124). More recently, Simões and Martins (2017) have contrasted borderless with traditional BGs in terms of the characteristics of the entrepreneurial team, network relationships, and value chain configuration.

The borderless literature has also shown that while the setting up of a dispersed international value chain (almost) since inception may be the result of design and planning, it often stems from an effectuation approach (Sarasvathy, 2008). To explore emergent opportunities or to overcome perceived constraints, the entrepreneurial team develops cooperative linkages with other individuals and organisations (da Rocha and others, 2017; Simões & Martins, 2017). The case studies analysed by da Rocha and others (2017) provide interesting illustrations of these aspects.

3 Case Studies

Leblon Cachaça was established in 2005 by Steve Luttmann, an American with extensive experience in the beverage industry. He felt that cachaça, a Brazilian spirit distilled from sugarcane, might be successful in the US market. In the process, he met Gilles Merlet, a French cognac distiller, and Merlet agreed to further develop the product. As the relationship evolved, Merlet took a stake in the company, and the firm’s cachaça started being aged in oak barrels in France. The company acquired estates and a distillery in Brazil, from where cachaça is sent to France in containers, and then shipped to

distributors in around 20 countries. The main market is still the US.

RacingThePlanet was launched by Mary Gadams (a former executive of multinational companies) in 2002 in Hong Kong. After a diversified executive international experience, this marathon runner was “brewing in her head” the idea of starting a company in charge of organizing marathons in exotic places. When she created the firm, she had already fully developed a successful business model to keep costs low, using volunteer staff and her friends and acquaintances’ network. The company later established an office in the UK to coordinate the flow of supplies to and from different countries. The services provided required a complex coordination of people—staff, volunteers, contractors, participants, etc.—spread all over the world. RacingThePlanet had 45 full-time staff located in Hong Kong and the UK, more than 100 volunteers, and representatives in Germany, Italy, and Spain.

Trikke Tech was founded by three young Brazilians, who had invented a small three-wheel human-propelled vehicle. Though the launch in Brazil was unsuccessful, they believed in the potential of the product. One of the founders, Guido Beleski, moved to California, carrying a prototype, patented the product in the USA, and opened a new firm. He accidentally met a scooter industry executive, who bought a stake in the company. This partner brought marketing and distribution skills and a business network. The product was launched in the US market in 2002. Beleski and his American partner were in charge of the US operation (marketing and sales), while the other two partners carried out R&D in Brazil. Production was later outsourced to China, after a spontaneous contact from a Chinese scooter manufacturer. The company had local distributors in 44 countries.

Firm S (disguised name), a semiconductors company, was established in 1998 in Shanghai,

China, by four graduate students. In 2002, a Singaporean venture capitalist invested in the firm. In 2003, a Shanghai government’s initiative gave the leading entrepreneur the opportunity to visit science parks in France. This led to the creation, in 2003, of a joint venture with a French partner, which enabled the firm to integrate R&D with marketing capabilities in different regions. Shortly thereafter, Firm S acquired a Russian company (with R&D and marketing activities), to be closer to the Asia-Pacific region, and established an R&D center in Taiwan to learn about the business system in the Taiwanese high-tech industry. The firm underwent a fast expansion after 2004, opening subsidiaries in Canada, South Korea, and Japan.

Trial, a software development firm, was founded in Finland in 2000, “with the intention of creating an international firm instead of a firm that goes abroad country after country” (Kuivalainen & Saarenketo 2012:275). The company initially opened a sales office in Sweden, but later closed it. Operations moved to the US and the UK, and later it was headquartered in the US (from Finland). By 2006, Trial’s activities spread across three countries: headquarters in the USA; R&D in Finland; and other value chain activities in the US and the UK. Out of its 130-people staff, 100 were American and British, and 10 were Finnish; the CEO was a US-born executive, and just one member of the management team (out of seven) was Finnish. The rationale for the reorientation towards the USA and the UK was the importance of these markets to the company.

4 Discussion

These cases show that the ‘why’ and the ‘how’ of the location of value chain activities follow patterns different from those assumed by traditional BGs literature. There is often a process of experimentation, by trial-and-error, in which the entrepreneurial team has to redefine company’s location and activities patterns in

response to perceived restrictions and/or opportunities for firm growth.

As to the ‘why’, the case analysis indicates that is not a ‘one-size-fits-all’. Various motives are behind the decision to set up a borderless firm, and its value chain configuration is the result of the interaction of different factors. RacingThePlanet is at one extreme: the location decision was planned and the business model was, to a large extent, designed from the outset. But this approach does not hold for the other cases. “In fact, different reasons—rational, idiosyncratic, or serendipitous—may be present, which can be similar to the more general motivations that drive FDI decisions, or other internationalisation decisions” (da Rocha and others, 2017:138). As interactions take place and new linkages are envisaged as useful tools to respond to challenges or to explore opportunities, new partners are taken onboard, and new asset and location configurations are subject to experimentation. The explanation for most moves was to a large extent piecemeal, satisficing (Simon, 1956), instead of being guided by optimization criteria. As da Rocha and others (2017:138) put it: “in a sense, the question seems to be not ‘why’ one establishes an activity in a given country, but rather ‘why not?’”. Value chain configurations change according to an effectual logic (Sarasvathy, 2008).

This leads to the ‘how’ question. Networking plays a key role in explaining how a borderless configuration emerges and develops. In a way similar to Galkina and Chetty (2015), da Rocha and others (2017:139) found that “effectual networking together with the planned use of network resources in other countries and world regions” strongly shaped the very process of internationalization. This finding was confirmed by Simões and Martins (2017), who suggest that effectuation is likely to play a more significant role in borderless firms than in traditional BGs. Nonetheless, decisions based on both effectuation and design logics may go together.

While RacingThePlanet has followed an ex ante design, the process may often develop in ways that could not have been anticipated, as shown in the Leblon Cachaça, Trikke Tech and Firm S cases.

The research by da Rocha and others (2017) has another relevant implication: it shows that the use of planning and effectuation logics in firm internationalization is not restricted to foreign market entry and sales thereafter. To fully understand the borderless firms’ international value chain configuration, the full portfolio of activities of the firm needs to be analysed.

For this reason, it is important to distinguish between traditional (downstream) BGs and borderless firms. While the former usually internationalise from a home base, and the process may be understood by just taking a downstream approach, the latter demand close examination of their inception period. Most often, the international value chain configuration is the result of an early combination of intended and emergent processes, based on an open approach to worldwide activity location. This cannot be understood when an exclusive downstream approach is taken. There is a need to distinguish between these two types of INVs, and to understand borderless as a promising and expanding breed, which requires further specific research. The recent work by Simões and Martins (2017) follows this path, and suggests that comparisons between borderless and traditional BGs should be further developed.

5 Conclusion

This article intends to underline the differences between borderless firms and traditional BGs. Drawing from recent criticisms to BG approaches and from research on borderless companies, namely da Rocha and others (2017), we have shown that borderless are in fact different from traditional BGs insofar as

they have an internationally dispersed configuration of value chain activities, a feature that is not necessary to characterise a BG firm. While planning and effectuation logics may (co-)exist in both types of firms, available evidence suggests that borderless firms may be more prone to an effectuation logic, as they are more open to search for, or to react quickly to, opportunities that stem from mobilizing different location-bound resources into a (temporary) international configuration.

This paper has implications for both entrepreneurs and academics. For the former, it shows that there are different types of configurations, and that, contrary to Kuemmerle's (2005) assertion, single home-country approaches may not necessarily be the most successful. It also indicates that, in line with Sarasvathy (2008), experimentation is often an essential ingredient to international entrepreneurship, and that effectuation is a feasible way to develop networks and to mobilise international resources. For researchers, it highlights the interest of carrying out further research on borderless firms, since these seem to be increasing in number and present features that distinguish them from traditional BGs. The development of platform companies (Parker, Van Alstyne & Choudary, 2016) further underlines the need for research on international value chain configuration and approaches.

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