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Factors influencing the internationalization of Swedish Private Equity Firms

– A study of four Swedish market leaders

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Abstract

Master Thesis in Business Administration

Title: Factors influencing the internationalization of Swedish Private Equity Firms – A study of four Swedish market leaders.

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Purpose: Private equity is a relatively new and unexplored business in Sweden and our study aims to answer why Swedish private equity firms choose to internationalize? How internationalized are the firms and what are the factors influencing the internationalization process? Furthermore we aim to map the structure of the internationalization of the different firms and understand the differences between the various Swedish private equity firms internationalization.

Method: The research is a qualitative case study, which best fits our purpose for an in-depth research of a fairly small amount of cases. Four Swedish private equity firms have been studied through qualitative interviews with several semi-structured questions focusing on the phenomena of internationalization. Expert interviews and other interviews have been conducted in a likely way, with the structure of a discussion where the interviewee was given great space to express his or her opinion. To get the broadest most accurate picture possible of the capital market, the risk capital issues and the internationalization, a wide range of books, articles, magazines and other sources where used.

Conclusion: In our study, we find that the Swedish private equity firms have focused geographically on the Swedish, Nordic or Northern European market when it comes to investing in portfolio companies.

Through the Internationalization Matrix we show that the following seven factors have great influence on the internationalization of Swedish private equity firms: market knowledge, past experiences, network, reputation, competition, cultural differences and social impact, having both a driving and suppressing effect on the internationalization. These internal and external influential factors form the firm's chosen strategy, leading to internationalization. Throughout the internationalization, valuable and crucial experience is obtained and implemented in the firm changing the firm specific appearance of the influential factors.

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1 Introduction

The first chapter aims to facilitate the understanding of our thesis. First we give background information of the international capital market and define internationalization before we introduce our problem formulation, aim and delimitations of our research. Finally we explain how we define certain expressions and present the abbreviations that will be used frequently.

1.1 Background

1.1.2 The international capital market

The function of a capital market, both domestic and global, is to bring those who want to invest money together with those who want to borrow money. The global capital market has grown radically the last decades, mostly because of the information technology. Financial services are an information-intensive industry, and the advances in information technology have made the communication between people from different parts of the world more rapid. The advanced processing capabilities have also made it possible to absorb and process larger quantities of information and data from around the world. Other influences have been deregulation of financial services and relaxation of regulations on cross-border capital flows. In countries all across the world, financial services have been the hardest regulated industry of all. The deregulation started in the 1970s in the United States and has had large effects on other key countries in the business[1].

The advantage of a global capital markets is that the global capital market has a greater supply of funds available for borrowing, resulting in lower cost of capital for borrowers. Furthermore the global capital market enables investors to reduce the risks by diversifying portfolios of holdings internationally, which is one reason why private equity companies choose to invest on foreign markets[2].

The Swedish risk capital market, consisting of venture capital, private equity and other risk capital investments, got started during the second half of the 1970's and has since then been undergoing continuous growth. The phenomenon that companies and individuals invest in ideas and firms existed long before the 1970s, but it triggered the development of a more organized form of the business. Venture capital companies and venture capital funds were established to give financial support as well as managerial support to unlisted companies. It started with government programs involving a number of regional funds[3].

During the 1980's, the industry started to take form when about thirty venture capital firms were established, besides the numerous government funds that swept along. The reason to this progress and growth was the upturn on the stock exchange and the foundation of the OTC-list in 1982. But the capital market is very volatile and the negative trends also had impact on the

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[1] Kenwood, Albert George/Lougheed, Allan Lesley (1996) ”Internationella ekonomins tillväxt1820-1990”
[2] Charles W.L. Hill “International business: Competing in the Global Marketplace”.
[3] http://www.vencap.se/article_view_e.asp?ArticleID=31

venture capital market. When the stock exchange went down during the second half of the 1980's, the development on the venture capital market stagnated. The number of venture capital firms decreased and investment focus shifted towards the property market[4].

The development in the venture capital and private equity industry was the opposite during the 1990's, compared to what happened throughout the 1980's. During the first half of the decade there was a slow growth that would speed up and continue at the turn of the century. An indication is the number of active corporate members registered at SVCA that went from 25 members in 1994, to 55 in 1998 and reached 155 members in 2001. The numbers includes all firms that actively invest in unlisted companies and provide them with an active and time-limited ownership engagement. In the year 2000 Sweden was one of the leaders of what is usually called "The New Economy" and was a real entrepreneurial economy. This new era began with the "Internet revolution" and as a country with a strong bioscience industry, Sweden became an interesting market[5]. Many new companies were established leading to a large amount of potential investments. In 2002 the number of firms decreased to 140. The decrease, approximately 10%, was relatively small when put in relation to the remarkable decline on the financial market since the year 2000[6].

This is a brief description of the start and development of the Swedish venture capital and private equity market, which today invests 0,87% of the GDP, followed by Great Britain with 0,65% and the Netherlands with 0,24%. Not surprisingly, the United States tops the ranking[7].

There has been an increase in investments, which indicates a stronger belief in the future and the potential of the market[8]. These investments have primarily been made in the industrial and service sectors, but the software industry and other new technologies have also been attractive businesses.[9] Since the IT burst in late 2000 the market has strengthened and is now on its way up.

In relation to the Swedish GDP, a large sum is annually invested in the venture capital and private equity industry which is why the Swedish market is considered to be too small by some companies. There might be a lack of potential investment objects compared to the number of investors, i.e. private equity firms, and the amount of money they posses. Therefore, larger private equity firms extend their market to include the other Nordic countries and consider the Nordic region as one market[10]. When discussing the matter with Jan Lindroth, reporter at the journal "Affärsvärlden" he gives his opinion: "*This is a capital intensive industry. One can imagine that a powerful private equity firm, with a large sum managed capital, (sometimes niched industry wise) will turn to a larger market to find investments with potential yield*".

The differences in languages, corporate culture and manners are moderate between the Nordic countries, which makes the expansion less costly. This is the first step in the internationalization. Then depending on the organization and surrounding factors, firms have

[4] http://www.vencap.se/article_view_e.asp?ArticleID=31.
[5] http://www.vencap.se/article_view_e.asp?ArticleID=19
[6] http://www.vencap.se/article_view_e.asp?ArticleID=31.
[7] http://www.vencap.se/article_view_e.asp?ArticleID=31.
[8] Nutek – Sweden's Industrial Development Department ("Nutek – Verket för näringslivsutveckling").
[9] Nutek – Sweden's Industrial Development Department ("Nutek – Verket för näringslivsutveckling").
[10] Telephone interview with Janne Lindroth November 13th 2003, reporter at the magazine "Affärsvärlden".

chosen different forms of internationalization. Some chose to invest in companies on the entire European market and others decided to take a more restrictive approach.

1.2 Internationalization

A firm's definition of internationalization reflects different answers depending on the firm's size and structure. With the EU (European Union) and the introduction of the Euro on the European market, the boarders between countries are fading and the markets are expanding. Most of the private equity firms we have studied in our thesis see the Northern countries as one united market, and does not specify one Swedish market, one Danish market and so on.

When we use the expression internationalization in this thesis, we allude to companies investing outside the national boarders of their home country, therefore Sweden is seen as one specific market and a private equity investment done outside the Swedish boarders define the a Swedish private equity company as internationalized. We have chosen to divide the private equity engagement into three momentums:

First: Finding the investors
Second: Investing in potential firms
Third: Exiting the investment.

Our definition on internationalization throughout this master thesis will be, as mentioned above, depending on the geographic location of the company they invest in. If a portfolio company is headquartered outside Sweden, the private equity firm is internationalized. Whether or not the firm is internationalized is not defined by where the firm chooses to raise its fund, where the fund is located, or what strategy is used during the exit phase.

1.3 Problem solving

The Private equity market, as it is defined and structured today, discussed under paragraph 1.1.2, is a relatively new and scientifically unexplored business in Sweden. The industry started to develop some thirty years ago and it is still attracting reporters of business journals to investigate it, and many analysts have tried to predict its future. The extensive attention given to the business developed our interest toward the private equity industry.

When we first started working on the thesis, our belief was that most Swedish private equity firms worked globally and often invested in portfolio companies outside Sweden and Europe. In an early stage of our work, we learned that this was not accurate, and might be a common misconception among people not active in the business. It was therefore of interest to study the internationalization of Swedish private equity firms in reality.

The differences between the Nordic countries in their culture and tradition, economical standards and political norms do not have an imposing effect, and entering one or more of the Nordic countries would not be too costly for a Swedish private equity firm. It is our opinion that these differences grow with the geographical distance, it should therefore be harder for a Swedish private equity firm to enter more distant markets. The EU and the Euro has, in our opinion, decreased the differences within Europe, and entry barriers such as language, cultural, political and monetary differences are changing. It is, therefore, interesting in both an industrial and theoretical point of view to answer the question: What are the influential factors that might drive a Swedish private equity firm to internationalize toward other part of Europe?

We are sure that there are numerous of internal as well as external factors, which affect the decision of a Swedish private equity firm to internationalize. These factors can hinder, trigger or drive the direction of the geographical expansion of a company. We therefore find it interesting to examine these factors and their influence on the internationalization of Swedish private equity firms.

When completing the theoretical framework of this study and forming the basic knowledge and insight into the industry, we found that there are a vast amount of studies made on internationalization, focusing on either the internationalization process or the factors behind the internationalization. There has, however, been few studies concentrating on private equity firms in general and none, as far as we know, focusing directly on the internal and external factors influencing the private equity firms internationalization. Can the internationalization theories developed with traditional industries and service companies also explain the internationalization of private equity firms?

Our study aims to answer why do the Swedish private equity firms choose to internationalize? How internationalized are the firms and what are the factors influencing the internationalization process? Furthermore we aim to map the structure of the internationalization of the different firms and understand the differences between the various Swedish private equity firms internationalization.

1.4 Aim

The purpose of our thesis is to study the internal and external factors influencing, triggering, driving or suppressing the internationalization of Swedish private equity firms.

1.5 Delimitations

The capital market and its actors are complex and it is therefore necessary to make certain delimitations to be able to conclude the work within the given timeframe.

We will limit the study to include only the private equity market and have therefore studied four private equity firms. Consequently other forms of risk capital, such as the venture capital market and its actors, are excluded in this study.

1.6 Concepts, Definitions and Abbreviations

Words and expressions used repeatedly are shortened or abbreviated, sometimes not generally recognized. To avoid conceptual misunderstandings and to make clear what is meant when using certain expressions we want to define the following terms and abbreviations:

PEF: Private Equity Firm
PE: Private Equity
VC: Venture Capital

IK: Industri Kapital
NC: Nordic Capital
EQT: EQT Partners AB
NUTEK: Sweden's Industrial Development Department
SVCA: Swedish Venture Capital and Private Equity Association
EVCA: European Venture Capital and Private Equity Association

Risk Capital: Although venture capital is the most commonly used term to describe the PE and VC, we have used "Risk Capital" in order to make the distinction between these two.

1.7 Disposition

Chapter 1:
The first chapter aims to facilitate the understanding of our thesis. First we give background information of the international capital market and define internationalization before we introduce our problem formulation, aim and delimitations of our research. Finally we explain how we define certain expressions and present the abbreviations that will be used frequently.

Chapter 2:
In this chapter we start by explaining the scientific method used when conducting this study, the data collection and our criticism of the sources used. We also discuss the strengths and weaknesses of the study and practically describe how the work was performed.

Chapter 3:
This chapter will give a description of the risk capital industry in order to give the reader an insight into the nature of the industry studied. It will start with a general overview of risk capital and then present the Swedish risk capital market, and finish with a description about private equity firms, associations and different investment strategies and investment stages.

Chapter 4:
This chapter will start with a brief summary of the theories proposed in the field of internationalization. We will then describe the internationalization process, explain external and internal factors that influence a firm's decision to operate on an international market and discuss the nature of private equity and the implications this might have on our study.

Chapter 5:
In this chapter we will present the case-companies more thoroughly to the reader, giving a description of each firm's business concept, brief history and influential personage. The second part argues the general investment strategy and policy, pictures the geographic focus on funds and portfolio companies and summarizes the firms' internationalization. The empirical study is concluded by a discussion about internationalization.

Chapter 6:
The chapter starts with a deeper explanation of the analysis so that the reader easily can follow the authors reasoning. We then analyze the essential differences between private equity and other industries, the driving forces and influential factors of internationalization, which are linked to the theoretical framework. The summarizing discussion results in *The Internationalization Matrix*, first applied on the four private equity firms studied and second on the three regions Sweden, the Nordic region and Global.

Chapter 7:

In the last chapter of our master thesis we sum up the thesis in totality and state the general impression from a comprehensive point of view. We have a concluding discussion around the Swedish private equity firms, their choices of internationalization and what distinguishes their industry. We conclude the chapter with the theoretical implications where we give our opinion on what further studies would be interesting in this matter.

2 Methodology

In this chapter we start by explaining the scientific method used when conducting this study, the data collection and our criticism of the sources used. We also discuss the strengths and weaknesses of the study and practically describe how the work was performed.

2.1 Reseach Method

It is our opinion that personal experiences and individual references have impact on the results of scientific work. Still, it is our ambition to minimize our personal influence and report the outcome of our empirical work as objectively as possible. Method can be understood as: “The various ways by which data can be collected and/or analyzed”[11], and below we explain what methodology we have chosen to conduct this master thesis.

We have chosen to do an *explorative qualitative case study*. *Qualitative research* is characterized by closeness between the scientist and the research object. The process is based on intimacy and understanding, and that there is a continuous interaction between empiric and theory[12]. This is a good description of our profound case company interviews, further explained below. The purpose of this course of action is that the scientific will build up an understanding of the situation that the researched object is in. The method requires a great deal of flexibility from all actors; but foremost from the researcher and the lack of structure makes the work even harder. For us, the flexibility implied for instance traveling between Stockholm and Lund in short notice in order to adjust to the schedule of the case companies. *Case studies* can be carried out in various ways and can adopt both qualitative and quantitative means for data handling[13]. A *case study* contains only one or a few individual cases, where a case can be for example a company, an event or a geographical area[14], which is explored in detail and in many dimensions. We chose to study four private equity companies through interviews, financial information, articles and more[15]. An *explorative* case study is a case study where the researcher aims to formulate hypotheses[16].

Two main paradigms, *deductive and inductive methods*, can be distinguished when conducting social science studies. The *deductive* method starts out from the theory, and the *inductive* method’s starts out from the empirical framework. These two explanations are relatively weak, when they do not aim to create understanding. Our work is characterized as a creative process where theory and the empirical framework have been brought in simultaneously, and put in relation to each other with the purpose of enlarging the understanding of the factors influencing the private equity firms to internationalize[17].

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[11] Hussey & Hussey “Business research – a practical guide for undergraduate and graduate students” 1997
[12] Holme, Idar Magne and Solvang, Bernt Krohn, “Forskningsmetodik – Om kvalitativa och kvantitativa metoder”, 1997
[13] Gummesson “Qualitative Methods in Management Research” 2000
[14] Lundahl, Ulf and Skärvad, Per-Hugo, “Utredningsmetodik för samhällsvetare och ekonomer”, 1999.
[15] See our list of references.
[16] Lundahl, Ulf and Skärvad, Per-Hugo, “Utredningsmetodik för samhällsvetare och ekonomer”, 1999.
[17] Alvesson, Mats och Sköldberg, Kaj “Tolkning och reflektioner – vetenskapsfilosofi och kvalitativ metod”, 1994

Our problem solving, aim and delimitations, described in the previous chapter, have taken their present form while this study was conducted. The phenomenon is called *progressive focusing*[18] and is usual in qualitative research. During such a working process, it is important that the researcher has a clear picture of the question being explored, or focus will be lost, resulting in stress and difficulty regarding relevant information. Our question at issue has throughout the study been what factors influence the internationalization of Swedish private equity firms, which has helped us from focusing on, for example, the internationalization process or international fund-raising.

2.2 Data Collection

We have used both primary and secondary data in order to accomplishing this study. The difference between the two types of data is that the researcher registers the primary data himself or herself, whereas the secondary data is collected through other situations[19].

2.3.1 Collection of primary data

The collection of primary data has been made through personal interviews, telephone interviews, discussions and e-mail correspondence with the four case companies and experts on international business administration or people with experience from the business. The realization of this work is thoroughly explained under section 2.3.1.1 and 2.3.1.2.

2.3.1.1 Selection of case companies

We have decided to conduct our master thesis through case studies, described earlier, where we focus on the factors influencing the internationalization of Swedish private equity firms. The reason behind our choice to do a case study is that it would demand more time and resources than we have at our disposal to do profound individual interviews with all Swedish private equity firms to capture their specific internationalization structure. Regardless of this limitation, we wanted to make a relevant study and capture what seem to be the common influential factors within the industry, which in turn made the selection of case companies crucial.

The ranking of private equity firms active on the Swedish market, made by the journal "Veckans Affärer"[20] once a year (appendix 2), helped us find what we thought to be pertinent Swedish private equity firms. After having been in contact with several companies, and with further research and discussions with among others Cecilia Skingsley, editorial secretary at the finance division at Dagens Industri[21], our choice fell on four large private equity firms with different background, investment strategy and internationalization structure, further explained in our empirical study. By studying four various private equity firms that are different from each other, we feel enabled to make an accurate and broader description of the

[18] Lundahl, Ulf and Skärvad, Per-Hugo, "Utredningsmetodik för samhällsvetare och ekonomer", 1999.
[19] Lundahl, Ulf and Skärvad, Per-Hugo, "Utredningsmetodik för samhällsvetare och ekonomer", 1999.
[20] Veckans Affärer issue 13, Mars 24, 2003. Article: "Veckans Special – Sveriges största riskkapitalbolag".
[21] Telephone conversation with Cecilia Skingsley, editorial secretary, finance department at Dagens Industri, November 13, 2003.

general factors influencing the various Swedish private equity investors, which might be applicable on other firms not studied here. We also found it important to study large companies that control a majority of the market in order to best describe that PE market, while they represent a large part of the capital under management in the industry. Although different in their internationalization process, they remain similar in their organization and their investment portfolio with very similar networks in Sweden.

The companies will be described in detail in the chapter named "Empirical study" and therefore only given a short presentation below. The companies are mentioned in alphabetical order and are not placed in order of precedence.

- **EQT Partners** (henceforth called EQT): Established by Investor AB and the Wallenberg Group with an industrial investment focus on the Nordic region and Northern Europe, specifically the German speaking countries in Europe. Contact: Stefan Holmér, controller.

- **Industri Kapital** (henceforth IK): With a history in banking as Enskilda Venture founded by SEB, although now independent. They invest in Sweden, the Nordic region and Europe. Contacts: Michael Rosenlew, Vice VD, and Thomas Ramsay, Director.

- **Nordic Capital** (henceforth NC): An independent private equity firm primary investing in the Nordic region but also investing in Continental Europe, with an industry focus on health care. Contact: Joakim Karlsson, Director.

- **Ratos** (henceforth): A long industrial history on the Swedish market, listed on the stock exchange with investment focus on the Nordic countries. Contact: Clara Bolinder-Lundberg, Investor Relations Manager.

2.3.1.2 Interview design

To bring about and accomplish interviews are linked with some difficulties. Three main problems are identifying the persons with the relevant information, contact these persons and get them to cooperate[22]. The critical part of our data selection was the profound interviews, something we realized in an early stage. We were aware of that the market leading companies we had chosen to study would be very busy and even though they might have the will to help us, the time aspect could be in the way. After persistent work including several telephone calls and e-mail contact, we managed to get a personal contact on each company, providing us with valuable information, time and guidance in our study, accounted for in the chapter "Empirical Study" and throughout the thesis. Although it might not always have been our first choice of contact person that was realized, we feel that we were able to build a good relationship with the person in question and that we have been given relevant information. Sometimes the contact person was the intermediate to the CEO or other influential persons at the various companies.

We were given a personal contact at each company of the four Swedish private equity firms, whom we met for a one-hour personal interview in November and December, where the

[22] Lundahl, Ulf and Skärvad, Per-Hugo, "Utredningsmetodik för samhällsvetare och ekonomer", 1999.

company and its internationalization structure were discussed in detail. These interviews were semi-structured in the sense that both close-ended and open-ended questions were prepared in the interview guide[23]. This format was chosen as it facilitates a fairly structured session, maintaining a logical train of thought while at the same time making room for follow-up questions and remarks. A negative side to this approach is that semi-structured interviews may take considerable time[24]. The number of interviews rarely exceeds twenty[25], and in our case it was only four interviews of this kind. We also submitted an interview outline to the interviewee prior to an interview to give them the chance to prepare and feel more comfortable with the interview. The interviews with the case companies were conducted in a face-to-face setting at the firms headquarter where all three authors were present accept when Stefan Holmér at EQT was interviewed in late December, when only one of us had the opportunity to be present due to the coming Christmas holiday. To compensate the absence during the face-to-face interview, the telephone contact with Mr. Holmér has been extended. After each personal interview we rewrote and restructured the information given during the interview in order to assure ourselves that we had interpreted the information likewise. During an interview information can be lost when not using a recorder, but on the other hand the recorder can easily hold back or restrict the interviewee from answering the questions fully. We chose to conduct the interviews without using a recorder, which was balanced by the fact that we were three people concentrating on the interviewee and what he or she said. It is a dilemma whether or not to record personal interviews, but we feel that this was the best way for us to capture as much and the most accurate information as possible.

The personal interviews were in most cases followed up by telephone contact with the interviewee just a few days after the interview, in order to control facts and get additional information. In early January 2004 an e-mail was sent to each company with additional questions, which they answered by returning the e-mail. A few days later the case company was sent a copy of the individual company presentations so that they could verify the facts and written information concerning their firms in our thesis. To deepen the part discussing the firms' internationalization in "Empirical study" we had an additional interview over the phone with each personal contact from the different private equity firms. Furthermore we have had steady e-mail and telephone contact with all four case companies during our study. We also studied the written information such as websites, brochures and financial reports provided by the case companies.

To get a good and objective view of the private equity market and industry in Sweden, we have had contact with experts such as professors, doctors and journalists. Expert interviews via telephone was given by Torbjörn Carlbom, editorial secretary at "Veckans Affärer", Jan Lindroth, reporter at "Affärsvärlden", Jan Johanson, doctor in International Business Administration at Uppsala University and Håkan Nelson, CEO at Malmöhus Invest and former chairman of the Swedish Venture Capital Association. They all provided us with important and interesting information taking our study one step further. When information coming from one of the interviews are used in the text there will be a footnote informing the reader. Mr. Johanson also guided us through the theory handling internationalization and provided us with fruitful studies made in this field. Further we consulted Roland Larsson, employee at The Swedish Tax Authority when seeking information concerning the Swedish tax regulation in international business matters.

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[23] Appendix 1.
[24] Hussey & Hussey "Business research – a practical guide for undergraduate and graduate students" 1997
[25] Holme, Idar Magne and Solvang, Bernt Krohn, "Forskningsmetodik – Om kvalitativa och kvantitativa metoder", 1997.

2.4 Collection of secondary data

The secondary information has mostly been used to improve our knowledge on the research subject, facilitate the research, and serves as a report combining earlier experiences along with findings in the literature[26]. More concretely it means that the data that have been used in our work is literature, articles and other written information about methodology, strategic management, finance and internationalization. As in most work regarding thesis, more theory and literature was studied then we found applicable on this specific study. When questions have appeared during our work we have used our resources to find the answer.

In the search for relevant literature we have used different channels. Internet has been an aid when finding relevant information and we used the Swedish library database Libris to find books discussing the field of internationalization. Professor Jan Johanson at Uppsala University gave us advice concerning internationalization theories. We borrowed prior master thesis with focus on risk capital, capital markets and internationalization from Stockholm School of Business and Stockholm University to get a picture of how a thesis could be carried out and what sources they had found to make the study relevant. Through the database Elin, we found a lot of the articles used in this study. Further information was obtained from homepages of organizations such as Nutek[27], EVCA[28], and SVCA[29].

Internet provided us with fundamental information about the four case companies through their websites. Other websites used were online editions of business magazines and newspapers such as Affärsvärlden[30] and Veckans Affärer[31].

2.5 From data collection to analysis

The response summary made after each interview with the case companies, where later divided into two parts:

1. **Company description:** The aspect of the information which described the actual business was combined with what we had found on the company's website.
2. **Internationalization strategy:** The part of the summary, which reflected the factors influencing the internationalization. This part was extended by additional telephone interviews and e-mail correspondence.

In line with our theoretical framework we carefully analyzed the empirical framework and found the factors that influence the internationalization of Swedish private equity firms. A comparison was made between the companies different strategies in order to create a general picture. We then presented the factors and their impact on the various case companies. This work formed the internationalization matrix stating and explaining all the influential factors found in this study.

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[26] Hussey & Hussey "Business research – a practical guide for undergraduate and graduate students" 1997
[27] www.nutek.se
[28] www.evca.com
[29] www.svca.se
[30] www.affarsvarlden.se
[31] www.va.se

2.6 Course of Action

The work started with an opening meeting in October with the tutor Hans Landström where the conceptual question and basic aspects of the future work was discussed. During the research, we have had two additional meetings with Hans Landström and contact by e-mail so that he could supervise our working progress.

During October and early November we collected secondary data, formed the base for our theory, established the contacts with the case companies and booked the interviews needed. The companies were interviewed in the following order: Ratos, Nordic Capital, Industri Kapital and EQT. After the profound interview, the contacts have been related to the need for additional information about the various companies. Most of the expert consultations were also made during the starting part of our work. In late November and early December we traveled to Stockholm to make the face-to-face interviews with the case companies, which formed the empirical part of the study. Christmas implied a break in our work but in January the empirical framework was concluded. When all the information was gathered, the analysis could be made as described above. The analysis that led to the conclusion of the study, which was made through team-work and discussions including the three authors and additional discussions with experts earlier involved in the study.

2.7 Critical assessment of formulated research model

We have found some specific strengths and weaknesses in our study that we would like to point out to the reader. We will define what practical influence the concepts validity and reliability have had on our master thesis.

In our study we managed to capture four of the top ten Swedish private equity firms, all with various background, strategy and structure, something that dignifies the thesis, along with the expert interviews performed. Our personal backgrounds and experiences have been valuable when conducting this work. Relevant courses taken are finance, strategic management and international business administration.

A risk in conducting a case study is that different factors role can be simplified or exaggerated. We, as researchers, can be too concentrated on the case study and we therefore find it important, at all times, to jointly question and analyze our work in order to use information proportionately to the reality studied. The narrow time restriction limited the depth of the case studies and therefore influenced the outcome of this study. Also, as the case companies are competitors and secrecy is important in the private equity industry, the case companies might have been restricted in what information to share with us.

By being aware of these strengths and weaknesses when writing this master thesis, and constantly questioning our work and the provided information, we feel that we have been able to minimize the negative influence on the work presented in this study. Given these specific circumstances we feel that we have done the best work possible, regarding depth and width of the study, accuracy and relevance.

3 The Risk Capital Industry - a presentation

This chapter will give a description of the risk capital industry in order to give the reader an insight into the nature of the industry studied. It will start with a general overview of risk capital and then present the Swedish risk capital market, and finish with a discussion about private equity firms, associations and different investment strategies and investment stages.

3.1 Risk Capital

Risk capital is a corporate investment that gives the investor joint ownership. The investor is usually not given any interest and a risk capital investor is generally taking a higher risk than a lender or other financiers of the company. A firm will always have to pay off its loans and pay interest weather or not it is profitable, but an investor is only given something back when there is redundancy. Consequently we define risk capital as all investments made in a firm's equity. Risk capital can be divided into different areas and we have decided to focus on venture capital and private equity, although there is not an established definition of these two types of risk capital investments. [32]

Private equity investments are investments made in unlisted companies and are part of the risk capital market. Further characteristics of private equity are that the investments are made later on in the development of a corporation and that they include both financial support and managing commitment with a time limit of approximately 3-7 years[33] (confirmed by the duration of investments of the firms which we are evaluating). The possibility to dispose or convert the investment into cash is, due to the time-limit, an important part of the basic investment agreement or business plan set up between concerned parties.

Venture capital companies and venture capital funds are supporting unlisted corporations through both financial means and an active owner involvement[34], just as private equity providers are. It is very hard to make a worldwide-recognized distinction between the two different risk capital investments, private equity and venture capital.[35] Based on the research made on how the different terms are used by people in the business, through talking to economical journalists and risk capitalists as well as reading both thesis and literature in the financial field, we have decided to make the separation based on *when* in a potential company's development phase the investment is made. According to the data collected VC is defined as investments made in an early stage of the firm's development, i.e. during seed-phases, start-ups and expansion phases, and private equity capital is provided later on in the development of a corporation. Moreover this is the same definition that EVCA[36], European Private Equity & Venture Capital Association and The Swedish Venture Capital Association[37] are using which brings it credibility. In what industry the investment is made, does not affect

[32] Michael Nyman "Riskkapital – Private equity- och venture capital-investeringar" 2002
[33] Michael Nyman "Riskkapital – Private equity- och venture capital-investeringar" 2002
[34] Article: "The development of the Venture Capital industry in Sweden". www.vencap.se 31, November 5, 2003.
[35] Interview: Håkan Nelson, CEO MHIV and former board director of the SVCA
[36] www.evca.com
[37] www.vencap.se

whether we consider it to be venture capital or not, but it is a fact that some people in the business do so, mostly on the American market.

Usually a distinction is made between formal and informal venture capital where formal venture capital is investments made by venture capital firms and the informal venture capital comes from private investors using their personal means.

In Europe, VC is often considered a part of the PE market and the figure below should be regarded as a simplified version of the risk capital market, while there are some PE and VC investments, which are made in listed companies.[38] When a PEF invests in a listed company it will buy it out of the stock exchange in order to gain control and facilitates its exit possibility in the future.

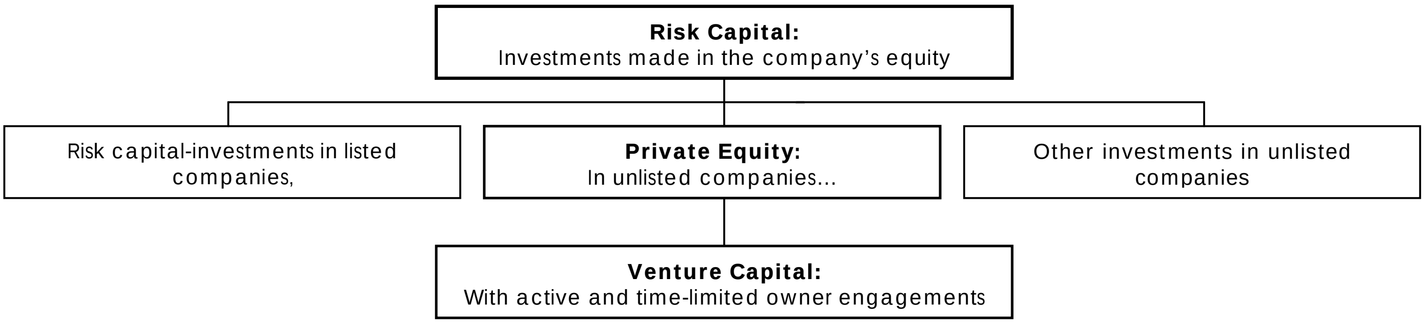

Figure 3: Differences between risk capital, private equity and venture capital. Consequently venture capital is a part of the risk capital market[39].

3.2 The Swedish risk capital market

The majority of the 128 active corporate members of the Swedish Venture Capital Association conduct venture capital operations in seed financing and start-ups (i.e. at the business development stage and entirely new companies). Approximately 75% of members are mainly interested in investments in the expansion phase of a company, while 25% invests in buy-outs (i.e. investments in more mature companies). A breakdown by available capital, on the other hand, looks different. [40]

The risk capital market in Sweden consists of approximately 60% traditional private equity and 40% venture capital but the relation varies constantly. The market is characterized by large investments in mature industries and a few dominant actors[41]. Large private equity firms on the Swedish market are among others Segulah, Industri Kapital, 3i, EQT and Nordic Capital[42] and they are all capable of making multibillion kronor deals. An investment is realized through a buy-out of a company from the stock exchange, or from a private owned

[38] Michael Nyman "Riskkapital – Private equity- och venture capital-investeringar" 2002
[39] Isaksson, Anders ”Venture Capital – begrepp och definitioner" 2000-2001
[40] www.vencap.se, November 23, 2003.
[41] Veckans affärer: "Special: Riskkapital – De rika jättarna" 010903.
[42] See appendix 2.

business. During the following years, the company is strengthened in terms of capital and managing support through supplementary deals, cost cuts and market expansion. After that, the company is sold at a higher price than the initial investment or refloated on the stock exchange. *Exit* is the term used for the sale or disposal of the company in question, which is usually done after 3-7 years of ownership.

3.2.1 Investors and Owners

Different forms of investors – private equity fund versus private equity company

Sweden is one of Europe's most vivid private equity markets, and it has even been said that it has passed Britain's private equity market activity wise. In Sweden today, approximately SEK 190 billion is earmarked for private equity investments, of which around SEK 111 billion is invested[43]. The most frequent form of private equity investments, both in Sweden and abroad, has been in private equity funds, but there are also private equity companies, for example Ratos AB. Investors in funds have traditionally been Swedish and foreign pension funds and other savings funds, but also major investment managers and private individuals. The funds are often set up as offshore limited partnerships. Investors in these funds undertake to invest a certain total amount but do not provide this until the fund makes an investment. This is why in the private equity market there is capital earmarked for investment but not yet invested, as well as invested capital. Private equity funds normally have a term of about 10 years, after which the fund's investments should have been sold and the money earned by the fund successively repaid to the investors[44]. The Swedish private equity companies have the structure of limited partnerships, and the return is burdened with tax[45]. The private equity companies in Sweden have *investment company tax status*. An investment company normally pays no, or very low, tax. Capital gains are tax-exempt in investment companies[46]. These companies do not have to raise funds as the private equity funds, as they have the capital in the company. A listed company is also more open or transparent compared to a fund.

3.2.2 Association forms[47]

The choice of association is based on civil rights and tax regulation of the native country. In Sweden, a private equity-fund is normally a limited partnership[48], because of the favorable tax regulation. One of the principal goals when raising a private equity-fund, is to lower the amount of tax paid on the returns on investments. A limited partnership is *tax transparent* meaning that the tax on arising return is paid by the owner, i.e. the investor. Right now the tax regulations are discussed and considerable changes are expected, that will facilitate and ease the tax pressure even more affecting this form of association.[49]

[43] www.vencap.se
[44] Interview: Joakim Karlsson, director, Nordic Capital.
[45] www.vencap.se "Att investera i private equity och venture capital". 28, 2003-11-05
[46] Interview: Clara Bolinder-Lundberg, IR manager, Ratos
[47] Nyman, Michael "Riskkapital – Private equity- och venture capital-investeringar" 2002
[48] The investors of a limited partnership are the partners and the management firm is the complementary.
[49] Telephone conversation: Roland Larsson, employee The Swedish Tax Authority

If the purpose of the fund is to attract foreign investors, the laws and tax system of the different countries must be taken into consideration. It is also very important to inform the investors of how the fund is built up and its association form so that the fund can be successfully marketed. Investing in a Swedish private equity-fund is sometimes, or often, related to negative tax effects when disposing parts of the portfolio. Therefore it is common to establish funds abroad, most often in Holland as a "BV" (bestolen vennootschap) or "CV" (commanditaire vennootschap) or in Great Britain as a "Jersey limited partnership". The Swedish investment company Startupfactory is an example. It was established in 1999, when Investor, Softbank and Carnegie became partners by investing SEK 500 million in what formally is an investment company, where the main ownership is placed in Holland and the operations/business is managed in a Swedish limited company[50].

Another form of association is when the investor is investing directly in the portfolio company, called "co-investment". Furthermore, the fund can be built up of several companies and the investors are given the choice to either invest in a limited company or a limited partnership.

So far, we have discussed private owned private equity companies, but there are also private equity firms owned by a company group. Under these circumstances, the PEF is normally a subsidiary company in the group, receiving most of its means directly from the parent company, which principal business is not private equity investments. The distinction between a private owned private equity company and group owned one, is that the parent company (called "captive"), owns 50% or more of the subsidiary, or at least controls its holding with 20% of the shares (called "semi-captive")[51]. This type of private equity firm is represented in a number of industries, set up by, for example, banks or insurance companies to administer the capital. It can have positive effects on the parent company, affecting its image as an aware and progressive company and it can bring new and valuable knowledge into it and, of course, there is a chance for a good return. The negatives are the differences in corporate culture between the parent company and the portfolio company, the high capital risk and the risk of failure.

At last, there are private equity-funds owned by the government. An example in Sweden is "Sjätte AP-fonden", administrating the public pension capital[52]. There are several public organizations supporting the private equity industry with information, capital and other forms of aid. Examples are ALMI Företagspartner and NUTEK.

3.3 Investment Strategies and Investment Stages – From Entry to Exit

3.3.1 Investment strategies

The different investment strategies are usually divided into four groups[53]:

1. Investment phase

[50] Veckans Affärer nr 13 "Tvärstopp i riskfabriken" Mars 24, 2003.
[51] Michael Nyman "Riskkapital – Private equity- och venture capital-investeringar" 2002.
[52] www.nutek.se
[53] Michael Nyman "Riskkapital – Private equity- och venture capital-investeringar" 2002.

2. Industry
3. Geographic focus
4. The size of the investment

The investment strategies are not separate and a specific strategy is chosen for each category. The investment phase will be discussed in a separate section after the strategies, and the industry- and geographic focus are thoroughly described in figure 3. The size of the investment is not considered in Nordic Capital's analysis model, discussed below, and differs between private equity investors. Most companies have a lower and upper limit for the amount invested in a portfolio firm. The purpose of the limit is to spread the risks taken by the investor and is therefore often determined by the fund in total. The power point presentation over the different strategic focuses a private equity firm can choose between, introduced to us by Joakim Karlsson during our visit at Nordic Capital in November 2003, are the base to the following discussion.

A PEF choosing to focus *geographically* seeks to hire people with strong local networks and invest time in creating a proprietary deal flow through talking to buy-out prospects in a specific area. It meets with inability to find cross-border deals and inability to transfer firm and industry knowledge from other markets. Most of the Swedish private equity companies invest only in Sweden or/and the Nordic Region, although small companies even focus on local parts of Sweden. Some larger Swedish firms choose Europe as its market but, as the figure 2 shows, only six percent of the total investments are made outside Europe[54].

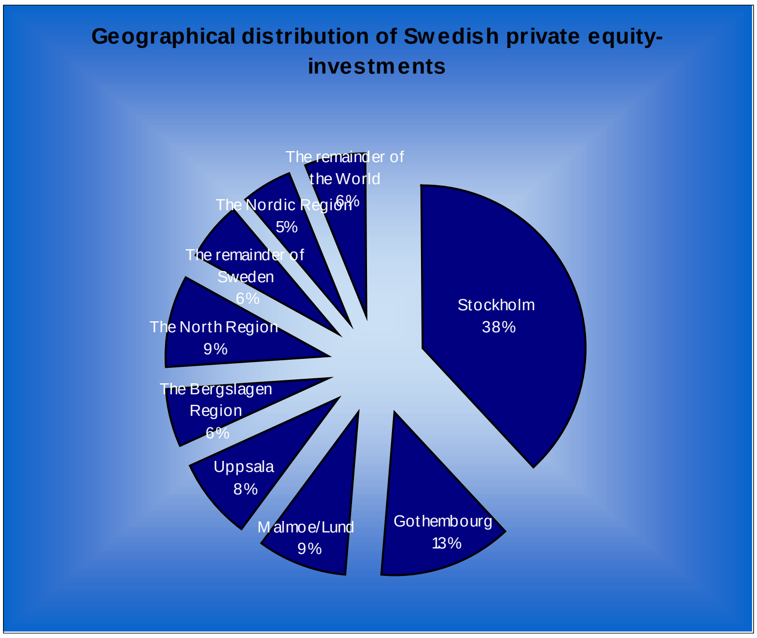

Figure 4: Geopraphical distribution of Swedish private equity investments

A firm can choose to invest in all industries but when focusing on one or a hybrid of specific *industries* the company hires people with relevant industry expertise and invests time in understanding trends and opportunities in the chosen industry or industries. The trade-offs will be that restrictions in deal flow, especially in small markets, drift toward earlier-stage deals and potentially dilutive to firm economics[55].

Different industries have different degrees of risk and sensitivity to market conditions. Typically high-risk businesses are high-tech and very sensitive to market fluctuations. The

[54] Interview Joakim Karlsson, director Nordic Capital. November 27, 2003.
[55] Interview Joakim Karlsson, director Nordic Capital. November 27, 2003.

high risk is compensated by the chances of considerable returns. Other businesses are indifferent to fluctuations, such as the pharmaceutical industry[56].

An investor company deciding to focus on *operational expertise and operational involvement* will hire people with operating background and spend more time working with each portfolio company to develop the business. The consequences are a need for fewer investments, intrusive to management, obsolescence of management skills and potentially dilutive to firm economics[57].

The forth strategy focus is *situational* which means that the company strives to conceptualize experience from earlier investment situations and invest time in actively finding specific situations or angels to current opportunities[58].

The figure shown below is a description of the diverse ways of strategic differentiation the private equity firm can choose for each category. Each strategy involves different risks and trade-offs and the company has to look to its strengths, weaknesses and specific niche, competence or competitive advantage in the private equity market

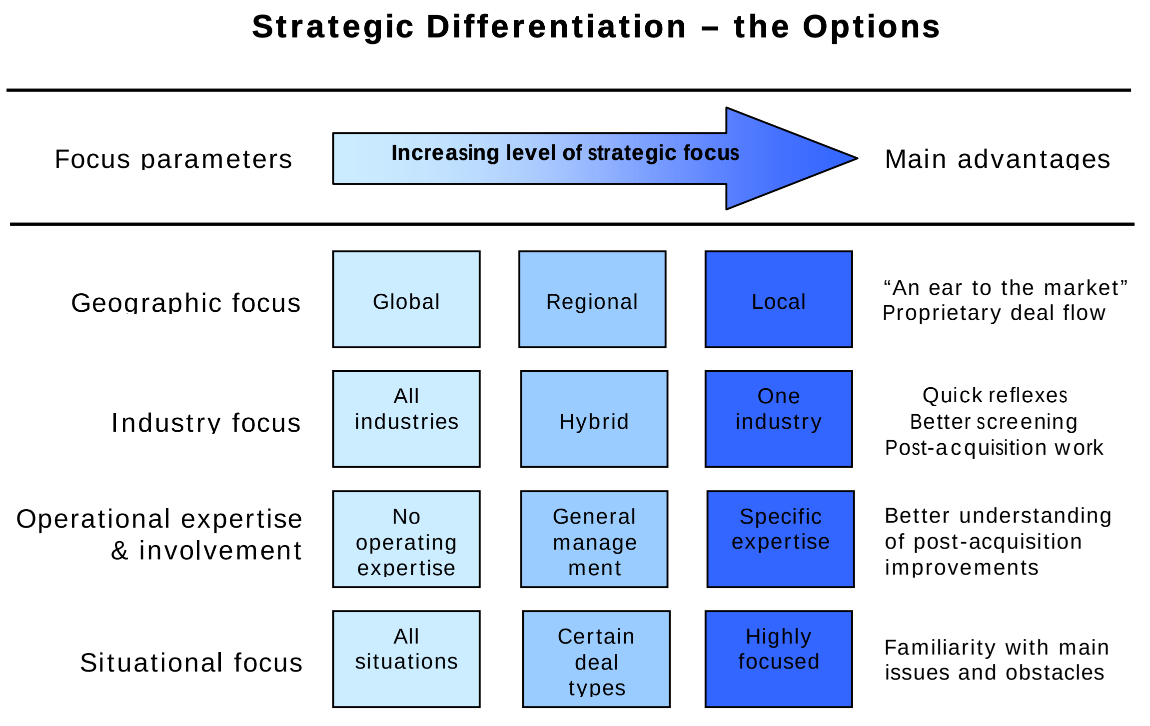

Figure 5: "Strategic Differentiation – the Options" [59].

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[56] Nyman, Michael "Riskkapital – Private equity- och venture capital-investeringar" 2002
[57] Interview Joakim Karlsson, director Nordic Capital.
[58] Interview Joakim Karlsson, director Nordic Capital.
[59] "Strategic Differentiation – the Options". A power point presentation of the private equity market by Nordic Capital and Joakim Karlsson.

3.3.2 Investments stages

A company has different needs in a range of aspects, such as financial and managerial, during its different development phases. Mainly investments are made during an early development phase, expansion or in mature phases. There are two types of investments made during the early phase of a company's life cycle. First, there is seed financing, meaning financial support to entrepreneurs or inventors, but it can also cover research projects. The second type of early investment is start-up financing: An investment, which is made when a business is set up, sometimes before the product or service actually exists. When investing in expansion the financial support can be added in either a company's second investment phase, and is called second stage financing, or in what is called third stage expansion when a company, even though it is profitable with increasing sales, needs capital, maybe to enter new markets. Investments made during a company's mature phase are dominating in the private equity market. They concern companies, which are stable having passed the first phase of growth. Buy-out is the most common form and is when a private equity company buys control stocks, makes a direct investment from the object's owner or buys the business. Another form is turnarounds, which is when an investment is made in order to change a vicious circle where a company has met stagnation in terms of development. Turnarounds are merely a small part of the private equity market and it is sometimes hard to differ a turnaround investment from an investment during an expansion[60].

3.3.3 Exit

A decisive moment in a Private Equity investment is the timing and method of the exit phase. A PEF will in most cases try to exit its investment in 3-7 years and this last phase of the investment process is very important and depend partly on the market condition. During 1999 and 2000, there was a great upswing on the stock market, which made it easy and prosperous to exit by listing the portfolio companies, although a year later the market was experiencing a downfall and other exit methods had to be considered. It is important to be open to different exit possibilities, while the economical climate might change during a period of 3 to 7 years.[61]

The most reoccurring exit methods are either through industrial offering or IPO (initial public offering). Industrial offering means the offering of the company to another company within the same industry. IPO, on the other hand, is made though the public offering of the stocks, which then leads to an introduction on the stock exchange[62].

There are other forms of exit methods, such as refinancing, repurchase and pay-back of loans, which are used, although not to the same extent as the prior two. These exit method are not often considered when purchasing the company, but might end up being the best exit alternative[63].

Both Stefan Holmér[64] and Clara Bolinder-Lundberg[65], emphasize the importance of the responsibility taken by the private equity firm throughout the exit phase. It will effect the company's reputation and an unsuccessful exit will damage the track record.

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[60] Nyman, Michael "Riskkapital – Private equity- och venture capital-investeringar" 2002.
[61] Nyman, Michael "Riskkapital – Private equity- och venture capital-investeringar" 2002.
[62] Nyman, Michael "Riskkapital – Private equity- och venture capital-investeringar" 2002.
[63] Nyman, Michael "Riskkapital – Private equity- och venture capital-investeringar" 2002.
[64] Interview Stefan Holmér, Controller at EQT. December 19, 2003.

3.4 Discussion

The previous section, which describes the private equity industry in Sweden and the investment stages, provides the reader with the necessary knowledge to further understand the thesis. It is important to understand that not all of the investments provide a positive return and that there is always a great risk when investing in PE. The capital market is volatile and unpredictable and that makes the internationalization more complex compared to other stable industries.

In order to analyze the internationalization of PEFs, it is essential to have a good understanding of the private equity firms basic structure. A PEF is a complex organization, which might have different factors affecting their choice to internationalize. In the next chapter, we will present the theories that defines the influential factors in the internationalization of a company, and which are later put in relation to the PEF.

[65] Interview Clara Bolinder-Lundberg, Investor Relations Manager, Ratos AB.

4 Theoretical Framework

This chapter will start with a brief summary of the theories proposed in the field of internationalization. We will then describe the internationalization process, explain external and internal factors that influence a firm's decision to operate on an international market and discuss the nature of private equity and the implications this might have on our study.

4.1 Introduction to Internationalization theory

Several theories in the field of international business litterature have been presented to explain why firms decide to engage in international operations. Wright[66] summarizes nine theories: First, monopolistic advantage theory suggests that firms will internationalize when they can use their established advantages in foreign countries at little or no additional cost (Caves 1982). Second, product life cycle theory suggests that firms internationalize in an attempt to protect their existing markets of mature products (Vernon 1966). Third, the stage theory suggests that a firm's international operations will gradually increase as it gains knowledge and experience and builds relationships in the international arena (Johansson and Wiedersheim 1978; Bilkey and Tesar 1977; Johansson and Vahlne 1977). Fourth, oligopolistic reaction theory suggests that firms will try to reduce their risk by imitating competing firms' entrance into foreign operations (Knickerbocker 1973). Fifth, internationalization theory suggests that firms internationalize to reduce costs by transfering goods and services across boarders where it is cheaper (Buckley and Casson 1976). Sixth, the eclectic theory of international production seeks to integrate internationalization theory with location specific elements such as labor costs, barriers to trade, and transport costs (Dunning 1988). Seventh, strategic choice theory suggests that firms respond opportunistically to changing market opportunities through a careful evaluation of risk with managers actively determining strategic options in the firms internationalization (O'Farell et al. 1998b). Eighth, the network theory of internationalization proposing that many knowledge-based business-service firms achieve their competitive advantage by developing mutually supportive interactions with other firms (O'Farell et al. 1998c). Ninth, transaction cost theory suggests that firms choose the least-cost international location for each activity they perform and grow by internationalizing markets up to the point where the benefits of further internationalization are outweighed by the costs.

The relevance to the thesis of parts of the litterature studied is limited. For example, product life cycle theory and the eclectic theory of internationalization deal with producing firms. Also, limitations and applicability of the transaction cost theory outside the manufacturing sector has been questioned (Dunning 1988; Hennart 1989; O'Farell et al. 1996, 1998b, 1998c). The internationalization theory suggesting that firms internationalize to reduce costs is also less applicable to non-producing (or non-labor intensive) firms.

In deciding on a theoretical framework for our thesis, we have noticed that there are many different views on internationalization. In consistency with the strategy litterature it can be noted that most theories have in common that they present internal or external driving forces

[66] M. Wright, P. Westhead, D. Ucbsaran "The internationalization of new and small firms: a resource-based view" 2001

behind internationalization. Weight is positioned on the internal capabilities since they can be adjusted and developed to meet the external environment, when forming the internationalization strategy of the firm.

We have therefore decided to present internationalization as a process explaining the internal and external factors and divide our theoretical framework into:

(i) A first section outlining internationalization as a process, explaining the relationship between external and internal driving forces. Further followed by a detailed description of external and internal factors influence, given in the literature.

(ii) To better understand the empirical study in chapter 5, we have included a discussion on the nature of private equity compared to the service industry.

4.2 Internationalization as a process

Ellis and Williams[67] explain the triggering factors behind internationalization by finding the respective internal and external factors affecting the choices made. The model below describes the process of internationalization and how a change in either the external environment or within the company can cause a triggering and lead to internationalization[68].

The model below includes factors at different levels, both within the industry and the firm, but also looks at meta-factors, which represent the surrounding environment.

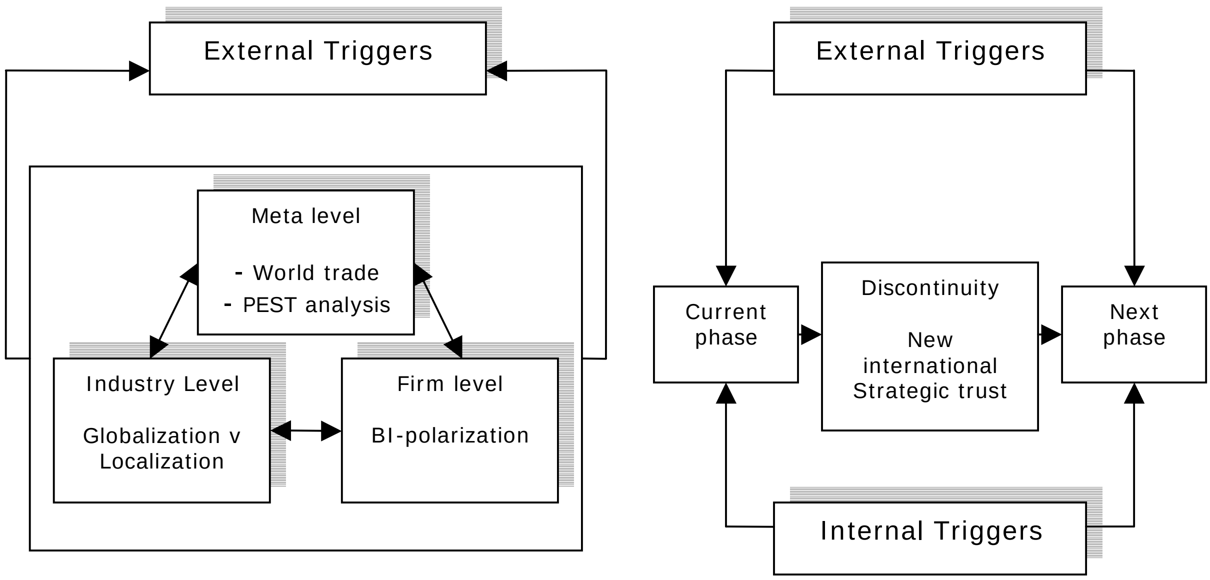

Figure 6: Triggering factors

A firm will at all times be influenced by different factors and we have therefore chosen to see internationalization as an ongoing process where the firm is continuously affected by external

[67] Ellis, John and Williams, Davis "*International Business Strategy*"1995
[68] Ellis, John and Williams, Davis "*International Business Strategy*" 1995

and internal factors that together might lead to a state where the firm decides that circumstances for internationalization are favorable. These factors can sometimes be difficult to separate since external factors will cause changes in the firms internal resources. The internal resources can in turn affect the firms perception or capability to handle external factors.

The first model of figure 4 is divided into three levels that are connected to each other. The double-sided arrows show that a change in one sector indirectly affects the other two. The development of the world economy (Meta level) will have an affect on the industry level, which in turn can provide new opportunities to an organization within that economy to internationalize.

4.2.1 External influence on internationalization

Meta level

Some examples of Meta changes are changes in: entry barriers such as custom's charges, exchange rates, or business cycle. The Uppsala school goes further in describing changes at the meta level by describing the impact of the *economic distance*[69] between two markets (or countries). The economic distance can be divided into two groups: *psychologocal distance* and *physical distance*. *Psychological distance* is constituted by barriers suppressing the information flow from market to company and from company to market. Examples are differences between Sweden and other countries in the education level, technological progress, legal system, language, and culture, affecting the choice of which country a firm decides to expand to[70]. *Physical distance* is made up by barriers for product and payment flow between company and market. Examples are transport costs, non-tariff trade barriers and payment difficulties. The economic distance is related to risk and uncertainty and the larger the distance the more risk involved in trying to conquer the market[71].

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[69] Johansson och Vahlne "The internationalization process of the firm" 1990.
[70] J.johanson, A. Blomstermo, C. Pahlberg: "Företagets internationaliseringsprocess" 2002.
[71] Johansson och Vahlne "The internationalization process of the firm" 1990.

A useful tool to further understand and study the development of external triggers on the Meta level is the PEST-analysis formed by Ellis and Williams[72] (Figure 5): **P**olitical triggers, **E**conomical triggers, **S**ocial differences, **T**echnical development.

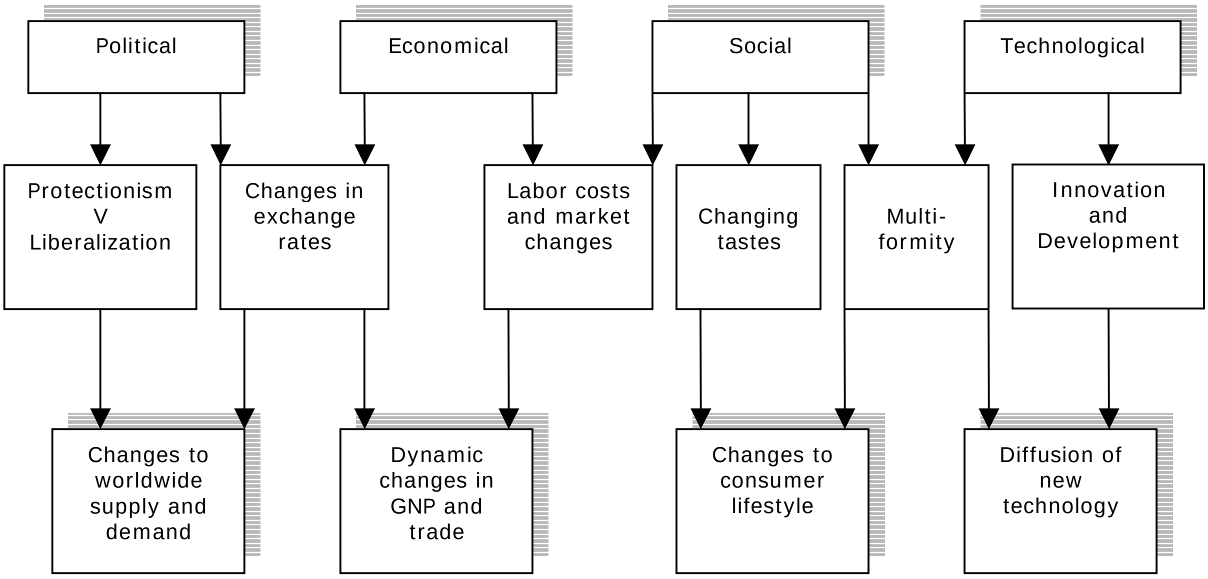

Figure 7: The PEST model

Even though, our study is mainly concentrated on the reasons why a firm internationalizes, Hellsten also points out the importance of what is demanded from an international firm. The surrounding factors, which together form the international environment, are built on the economical, political, cultural, technical and financial environments. These are factors, which affect the choices of the potential markets the firm decides to integrate, and it is vital for any organization to have an extensive knowledge of these factors in order to succeed.[73] These factors can easily be compared to the Pest model which focuses on similar aspects, as shown in the model.

Industry level

In figure 8, the industry level is balanced between globalization and localization, when a firm either chooses to localize their business or expand globally. These choices are affected by factors within the industry, such as[74]:

- *Customer*: The relationship toward the costumers is important and often defines the location of the company. Firms can choose to internationalize to get closer to the customer or potential investors[75].
- *Cost*: The production cost and other costs related to an industry can change from one country to another and force a firm to expand in order to be more competitive or stay to be closer to its production. A firm can also expand to achieve economies of scale through larger volumes at lower unit costs.

[72] Ellis, John and Williams, Davis "*International Business Strategy*" 1995.
[73] Hellstens, Lars & Osarenkhoe, Aihie "Internationell ekonomi: Resurser och handel i en gränslös värld" 2003.
[74] Ellis, John and Williams, Davis "*International Business Strategy*" 1995.
[75] Hellstens, Lars & Osarenkhoe, Aihie "Internationell ekonomi: Resurser och handel i en gränslös värld" 2003.

- *Country*: trade policy and other political, cultural, ethical differences can affect the level of internationalization. There can also be differences in the technical advances that can offer opportunities for developed countries to integrate in non-developed countries.
- *Competition*: New competitors and other actors on the market have a direct influence on the development of a firm. As a market becomes mature, competition increases and might force a firm to internationalize.

Wright[76] also discusses the influence of the environment, which plays an important role in the decision-making. The development of the domestic market and the potential in other markets affects the internationalization decision. Most of the investments and firm entries are made in resource rich urban areas where resources and market opportunities are available. These markets might then reach their level of "carrying capacity" and cause intense competition, forcing companies to look for other markets[77].

External barriers at the industry level encountered by firms can be entrenched firms that have a competitive advantage in their domestic market. A local firm serving its domestic market may benefit from informational, operational and process-based advantages not available to foreign firms. It is at this level that the oligopolistic reaction theory suggests that firms will try to reduce their risk by imitating competing firms' entrance into foreign operations[78]. In doing this they will have to imitate the internal resources and capabilities needed to overcome the barriers on the foreign markets.

4.2.2 Internal factors influence on internationalization

A firm's internal driving forces play a large role in the decision behind the internationalization level that a company chooses. The strategy and vision of the management can vary from one firm to another within an industry and are based on their opinion of the market and the future ambitions of the organization. It is the ability to form and develop internal strategic competence that creates competitive advantages[79].

Uppsala University invented a model, the Internationalization Process model, in order to better describe the internationalization process. It can be helpful to see internationalization as an ongoing process to gain a better understanding, altough it is increasingly recognized that new venture development are nonlinear and even chaotic[80].

The IP model considers internationalization to be a process where a firm moves from one stage to another consecutively. The importance of knowledge and experience is emphasized and internationalization can be seen as a learning process where firms begin their internationalization on markets close to their domestic market[81].

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[76] M. Wright, P. Westhead, D. Ucbsaran. "The internationalization of new and small firms: a resource-based view" 2001.
[77] M. Wright, P. Westhead, D. Ucbsaran. "The internationalization of new and small firms: a resource-based view" 2001.
[78] Knickerbocker. "Oligopolistic Reaction and the Multinational Enterprise" 1973.
[79] Grant, R. "Contemporary strategy analysis" 1998.
[80] Stevenson and Harmeling. "Entrepreneurial management's need for a more 'chaotic' theory" 1990.
[81] Johansson och Vahlne. "The internationalization process of the firm" 1990.

The IP model is divided into four parts, that aim to describe the process and the driving forces, although we have chosen to focus on the latter part. Two of them will demonstrate changes in the internationalization, and the other two will show the level of internationalization.[82]

This model focuses on:

1. ***Market engagement***: Shows the degree of commitment to a certain market, which is decided by how the firm is bound to a foreign market. Depending on the resources or the knowledge of a certain market, a firm will apply a different level of engagement, which is directly linked to how much continuous activity the company has on that market.

2. ***Market knowledge***: Experiences can give a firm the knowledge to expand their organization abroad. It is vital for the internationalization of a company because it allows the organization to use the experience, market knowledge and internationalization knowledge, and apply it to a new market.

3. ***Engagement decision***: The decision to expand a business abroad is based on past experiences and the problems a firm has encountered. This leads to the fortification of the business on the market that they know best before entering a new market. The knowledge drawn from these experiences is the key to spotting new business opportunities and developing them.

4. ***Continuous activity***: Continuous activity on the market allows a firm to gain a substantial amount of experience through progressive relations with customer, supplier, middle hand, government and other important actors.

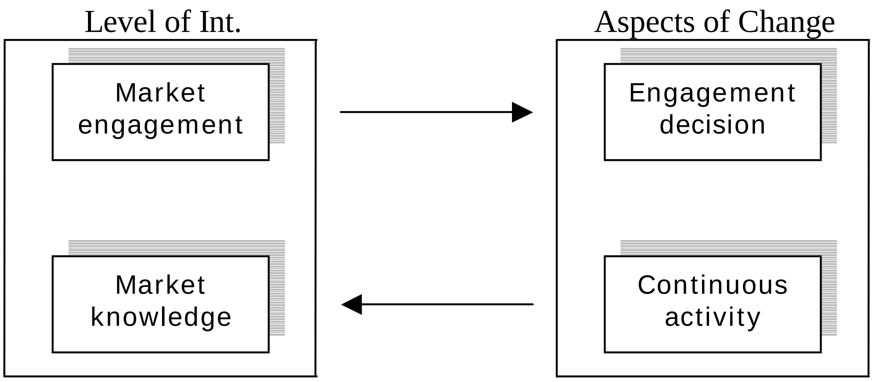

Figure 8: The IP model

According to the IP model, the internationalization process is an inter-play between developing knowledge and increasing the level of engagement abroad. Changes in the firm's international development and the steps in the international development affect the level of internationalization of the company. The model focuses on the process of internationalization, although the driving forces are also explained and can be decisive in the event of an expansion of the business.

[82] J.johanson, A. Blomstermo, C. Pahlberg: "Företagets internationaliseringsprocess" 2002.

The idea of the model is that the decision behind different types of engagement on foreign markets, such as new markets, new offices and other forms of engagement, is the same for all types of internationalization and can be described as a process which is driven by the same mechanism. This means that the development of knowledge and experiences form a tool in order to better perceive business opportunities and value these in a more accurate manner, which will again increase the experiences and knowledge. The competence and knowledge within a firm and its experiences is further described by Wright[83].

In the article "The internationalization of new and small firms: a resource-based view", the authors define the most decisive factors of internationalization within a firm and try to explain these[84]. The experiences, skills, and competencies are vital parts of an entrepreneur's human capital and an indication of the prosperity of their business. These conclusions can also be related to more mature firms when directors and board members are in a position of power, although they might not have the same direct influence on the direction of the company. The four sections below focuses on the capital of the entrepreneur, but the management and board of director's decision power in larger firms can also be related to these resources:

1. ***General Human Capital***: An entrepreneur can provide a company with human capital through either education or experience, which depends on the diversity and the extent of these resources. The level of education of the principal actors is also related to the will and ambition to expand the business.
2. ***Management Know-How***: With the help of extensive management know-how a firm can acquire the right partners, investors, and advisors, which in turn can provide the company with the necessary resources. These skills, competences and networks accumulated during previous and new business experiences can affect the level of internationalization, although information-flow from and to the firm is not to be forgotten.
3. ***Industry-Specific Know-How***: Previous experiences within the same industry can provide the management and owners with better know-how of the market and a closer relationship with potential customers, suppliers, and shareholders. It might also facilitate the task of identifying resources and market opportunities in foreign markets.
4. ***Ability to acquire financial capital***: A firm will need the necessary funds in order to expand their business into foreign markets. If a management group or the principal owners can easily acquire financial capital, it will provide them with a buffer against potential losses.

A firm will base the decision to expand to other markets on the internal resources and the opportunities and threats they see in the external environment. It is after all a conscious decision made by a decision maker or decision makers, and their experience and ambitions will highly influence the consideration of internationalization. A successful implementation in a foreign market will then depend on the ability to cooperate the right internal resources and capabilities to cope with the external environments influence on the firm.

A central theme in the literature is the network theory of internationalization, proposing that many knowledge-based business-service firms achieve their competitive advantage by

[83] M. Wright, P. Westhead, D. Ucbsaran. "The internationalization of new and small firms: a resource-based view" 2001.
[84] M. Wright, P. Westhead, D. Ucbsaran. "The internationalization of new and small firms: a resource-based view" 2001.

developing mutually supportive interactions with other firms[85]. The idea that a firm is not independent in their decisions and that there are different individuals relationships or contacts that influence decisions. The network approach sees markets as a network of business affiliations. For example, the link between a supplier and a customer will be affected by what is happening in the link between the customer and its customers as well as what is happening in the link between the supplier and its suppliers. There are many other networks connected to the network above and there is also a network between the individuals involved. This leaves a very complex situation where the network can be extended without boundaries and every company is at the center of its network. Networks are therefore not limited to a market, or to an industry[86]. It is, though, difficult to separate experience and networks since networks are often developed through the firm's experiences.

The relationship between internal and external factors influence on a firm leads to a rather complicated discussion when trying to map the influence these factors have on a unique firm. Many influences will depend on the industry the firm is in and it can therefore be of interest to examine the private equity industry's characteristics to gain a better understanding of the context in which PEFs make their decisions.

4.3 The nature of private equity firms

Before we proceed with the discussion about the internationalization of private equity firms, it is important to get a picture of the nature of private equity firms, and to better understand the circumstances in the internationalization of service business. The aim is to do this by identifying the idiosyncrasies of private equity firms by means of comparison with other services.

In the past a distinction has been made between consumer goods, industrial goods, and service goods, it is argued that these are three different situations that demand different efforts from the producing firms and lead to different consequences[87]. We have found no satisfying explanation as to under which category private equity firms fall and will therefore compare the activities of PEF's with the characteristics of service firms to identify the differences and similarities.

Three central characteristics of services can be distinguished in the literature[88]:

1. Intangibility
2. Inseparability, heterogeneity, and standardization
3. Perishability

4.3.1 Intangibility

Services are intangible in that sense that they are often impossible to taste, feel, see, hear, or smell services before purchase. Evidently some services are more intangible than others.

[85] O'Farell et al. "Internationalization by business service firms: towards a new regionally based conceptual framework" 1998c.
[86] J.johanson, A. Blomstermo, C. Pahlberg: "Företagets internationaliseringsprocess" 2002.
[87] Sharma. "International operations of professional firms" 1991.
[88] Kotler. "Principles of marketing" 1982.

Services such as security, mergers and acquisition valuation and advice are pure intangibles. Other services, such as insurance, are provided to add value to the sales of a tangible product. Lastly, there are services, such as financial services, and retailing, which makes available a tangible product. Two aspects of intangibility are the impalpable services,those which can not be touched, and those, which cannot be grasped, defined, and formulated mentally[89].

The fact that services are intangible has a number of consequences for service industries including the fact that services cannot be patented and protected through legal measures, as another enterprise can offer a very similar service. Another factor is that services are difficult to explain and that they are difficult to test and evaluate for the customer. It is often the case that customers' expectations are to high as the customer, in his evaluation, mixes in for example the consultant's luxurious car and the firm's exclusive office[90]. Since services are difficult to evaluate before purchase or consumption, the buyer's impression and trust for the firm is often connected to the personnel. The employees' knowledge, experience, and involvement is often important as well as firm specific qualities such as goodwill, reputation, and reference to satisfied customers[91].

PEF

The service product offered by a PEF is intangible in many ways, but the customer or investor will, however, receive some sort of tangible evidence as a receipt and contract of the investment made. Many firms offer similar service products and the evaluation for investor is difficult and often based on firm knowledge, experience, reputation, brand image, and most importantly track record of previous investments.

4.3.2 Inseparability, Heterogeneity, and Standardization

Some writers on service industries have argued that a distinction between manufacturing and services is that in the former production comes first followed by sales and, then consumption. In contrast, it is argued, that services are first sold and then produced and consumed simultaneously[92]. This statement is not strictly true for all service or manufacturing industries however.

Manufacturing is also considered as dependent on equipment and machinery, where there is a fixed investment at the heart of the production process. Service industries, on the contrary, are "people based" and less standardized. The large human involvement induces variability in the quality of services rendered, as the mechanisms to achieve standardization are less applicable. Services are hence also more difficult to separate or isolate from the service producer[93]. As pointed out earlier, production and consumption of services frequently, but not always, take place simultaneously.

PEF

In one sense the argument that services are first sold then produced is true for private equity firms as they usually set up a fund, and start investing as the fund is fully signed. The consumption, however, is not done simultaneously as the production since the investor only

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89 Berry. "Service Marketing is Different" 1980.

90 Edvardsson, Edvinsson & Nyström. "Internationalisering I tjänsteföretag" 1992.

91 Edvardsson, Edvinsson & Nyström. "Internationalisering I tjänsteföretag" 1992.

92 Grönroos. "Marknadsföring I tjänsteföretag" 1983.

93 Edvardsson, Edvinsson & Nyström. "Internationalisering I tjänsteföretag" 1992.

gets his money back as the investment is exited. Thus there is a time-lapse between the production and the consumption. The large human involvement is also true for private equity firms as it is individuals at the firm that make investment decisions where no two investments situations are identical. The quality of the investment is therefore impossible to standardize and factors out of the decision makers control might influence the outturn.

4.3.3 Perishability

It is argued that services cannot be stored and thereby create problems for demand management[94]. A manufacturing firm can partly manage demand fluctuation and capacity utilization by storing a part of the output. Services, however, cannot be stored and advance production is not feasible.

PEF

The above argument partly holds for private equity firms as well. The demand management problem is solved in that investments are made when money has been raised and not before. When, for example, most investments in one fund are materialized the firm starts working on a second fund, which will partly run simultaneously as the first one. This ensures the firm to have enough projects to efficiently utilize the working force. Private equity firms thereby create or manage the demand to fit their organization.

4.3.4 Discussion

Many characteristics of service firms also characterize private equity firms. There are also some similarities with producing companies. A PEF's business can be divided into two parts:

(i) When the firm markets it-self to get investments from clients. These investments are invested in funds and the client expects to get a part of the profit made. In this sense a PEF is completely a service firm, providing a service for its customers/investors with all the above characteristics.

(ii) the second part of the business is when the PEF invests the capital in portfolio companies to create value, which will show when that investment is sold. Here the PEF acts as a management consultant with ownership responsibility and incentives.

It is difficult to come to a conclusion about which category private equity firms belong to. One could argue that a PEF is a service firm since it, like a bank, invests clients' money to create value that in the end will give a profit both for the firm and for the client. One could also argue that a PEF works just like a producing company when it invests in a producing company in that it with the help of clients investments buy into existing firms and try to manage these in a way that creates value for its shareholders (partly the PEF and indirectly the investors). In this view, the PEF becomes a part of the firm in which it invests.

Our definition is that a private equity firm is a service firm since it has most of the characteristics above and it is these that influence the way in which a firm has to work when getting new clients, and therefore also during the internationalization process. The decisive

[94] Sharma. "International operations of professional firms" 1991.

factor is that a private equity firm when marketing itself abroad does not have any physical product to show and has to argue its case in the same way as most service or consultancy firms.

The importance in making this distinction is for the reader to better understand the theoretical framework that we have decided to use and that not all internationalization theories have been formulated with service firms in mind. A number of factors during internationalization are affected by the characteristics of service firms.

The special characteristics of services have the consequences that certain capabilities are magnified during internationalization. This makes the internationalization of services partly different and according to Edvinsson more difficult then the internationalization of products[95]:

- Services are difficult to standardize and can not be provided in the same way on a foreign market since they are often closely connected to individuals who are culturally and socially rooted in their own environment.

- Services are often person-specific and can therefore not be stored independently or transported. This creates an obligation for local and direct presence.

- Recruitment of qualified personnel to be stationed in a foreign country for a longer period of time is often a problem for internationalized service firms.

- A close cooperation between buyer and seller is often necessary. This is more difficult when there are substantial cultural differences between parties from different countries.

- Services, which cannot be demonstrated, are often even more difficult to evaluate for customers in foreign markets because of cultural and geographical distance.

In the following chapter, the four PEF studied in our thesis will be further presented. The theory, although vast, provides a framework for the internal and external factors influencing the internationalization. These form the background to the Empirical study, which will further define the factors influencing the four PEF chosen.

[95] Edvinsson. "Some aspects on Export of services". University of Stockholm, W 1982:2.

5 Empirical Study

In this chapter we will present the case-companies more thoroughly to the reader, giving a description of each firm's business concept, brief history and influential personage. The second part argues the general investment strategy and policy, pictures the geographic focus on funds and portfolio companies and summarizes the firms' internationalization. The empirical study is concluded by a discussion about internationalization.

5.1 EQT Partners

5.1.1 Company presentation

Business concept

EQT is a leading private equity group in Northern Europe with an industrial strategy. The business concept, quoted from the website is as follows*: "Our approach is to acquire high quality mid-sized companies in Northern Europe with a potential for top line growth"*[96].

Brief history of the company

Investor AB, Scandinavia's largest industrial holding group and part of the Wallenberg group, founded EQT in 1994. Investor is also a significant investor in EQT's funds, and is a leading shareholder in a number of multinational companies, including AstraZeneca, Atlas Copco, Electrolux and Ericsson. The company also conducts venture capital activities in North America, Europe and Asia. EQT Partners, the exclusive advisory company to the funds, has offices in Copenhagen, Helsinki, Munich, Stockholm and Amsterdam, all with local management. The private equity company is a leader in Northern Europe with an industrial strategy[97].

Management

Connie Jonsson is the Managing Partner, the CEO and other EQT partners are Michael Föcking, Björn Höi Jensen, Håkan Johansson, Thomas von Koch, Patrick De Muynck, Hans Moock, Udo Philipp, Jonas Ragnarsson, Jan Ståhlberg, Andreas Tallberg, Fredrik Åtting, Juha Lindfors, Christian Sinding and Caspar Callerström[98].

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[96] Quote from EQT Partners official website www.eqt.se December 12th, 2003, http://www.eqt.se/eqtiml/default_en.aspx
[97] www.eqt.se
[98] E-mail January 11, 2004.

5.1.2 Strategy and Internationalization

General Investment Strategy and Policy

The companies EQT chooses to invest in are active in a variety of industries, such as telecom, engineering, medical devices, service outsourcing, and technology and branded consumer products. On the website, EQT describes the investment strategy through figure 7 found below.

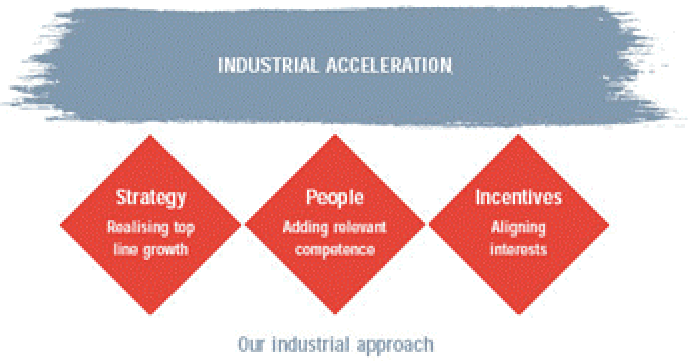

Figure 9: EQT's Industrial approach

EQT concentrates on industrial acceleration. Their focus is not on maximizing short-term financial returns, but on making steady improvements to the operations and competitiveness of portfolio companies, and advancing their strategic positions. The EQT-team is an active participant, starting change processes and transforming these companies from regional players with limited resources into world leaders. EQT is usually un owner for three to five years, creating companies that are well positioned for a listing on the stock exchange or trade sale. It considers itself having created value mainly through top-line growth, margin improvements and strategic repositioning[99].

EQT find investment opportunities in connection with the divestment of a large group, the succession of a family-owned business or the privatization of a state-owned enterprise that is in the divestment or spin-off process of a company. There are other acquisition opportunities like public-to-private offers and secondary buyouts, where portfolio companies are bought (or sold) to other buy-out firms. Stefan Holmér explains the reason why acquisitions of family-owned business are sought after. *"As soon as you are accepted as a potential co-investor or owner of a family-owned business they give you full insight in the company and provide you with all existing information since you are trusted and have a common goal"*[100]. During a telephone interview in January he adds *"But we always keep an eye on the stock exchange"*[101]. As an investor in this stage, EQT's actions are based on a professional, efficient and speedy acquisition process, open communications, discretion, and often offer the previous owner the opportunity to remain a minority owner. It wants managers to be partners and co-owners and tries to incorporate a genuine entrepreneurial thinking in the newly acquired company[102]. When choosing this strategy, it was natural to expand the activity to foreign countries when looking for portfolio companies.

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[99] www.eqt.se
[100] Interview Stefan Holmér, Controller at EQT. December 19, 2003.
[101] Telephone interview Stefan Holmer, Controller at EQT. January 20, 2004.
[102] Interview Stefan Holmér, Controller at EQT. December 19, 2003.

Geographic focus and structure of funds and portfolio companies

Equity under management comprises more than 3 billion euros allocated in five running funds[103]. EQT has invested in more than 30 companies since 1994. The five private equity funds have capital commitments totaling more than 3.2 billon euros (SEK 30 billion). The five running funds are EQT Scandinavia I (1995) and II (1998), EQT Denmark (1998), EQT Finland (1999) and EQT Northern Europe (2001). EQT Scandinavia I and II are fully invested. The first four funds are focused on acquiring companies based in the Nordic region, while EQT Northern Europe has a broader European perspective. Investors in the EQT funds are represented in a broad range, including families, foundations, banks, other financial institutions and corporations, for example AP Funds, the General Electric Pension Fund and as mentioned above Investor AB[104]. This is a proof of the broad network that EQT has that later will be discussed.

In April 2003, EQT has for the first time raised a Mezzanine fund. The EQT Mezzanine Fund focusing on investing in high quality growth companies in the mid-market in Northern Europe. It is a mezzanine debt fund, with commitments of approximately EUR 180 million. The approach is to acquire high quality mid-sized companies in Northern Europe with a potential for top line growth. EQT holds an active ownership in more than 20 companies with combined sales of more than seven billion euros. EQT aims to contribute more than capital to the companies it invests in and has an industrial approach built on experience and networking, coming from Investor and the Wallenberg group. The EQT Partners team, our case study, consists of seventy professionals with varying backgrounds, representing a wide range of industrial and financial experience from different regions of the world[105]. Among the seventy professionals at EQT, there is more network components then the countries EQT are active in at the moment[106], meaning that it already exists connections between EQT and geographic markets that might be entered in the future.

EQT portfolio companies represent strong brand qualities. When considering an investment, EQT always looks for reputable brand names that can be further enhanced as a very important building block for maintaining or advancing strong market positions. The investment object has to be located where EQT has market knowledge, which is based on experiences, common knowledge but first and foremost the connections[107]. Examples of portfolio companies are ComHem (2003), Duni AB, Findus AB, Dahl International AB and Orrefors Kostaboda AB. The investments are made from 1995 to 2003[108].

During 2003 EQT has realized four investments by exiting. The most resent exit was in August 2003 concerning TAC AB[109].

Summery of EQT's Internationalization strategy

EQT sees Sweden as a developed market, although there is not a lack of investment opportunities. EQT has been active in the Nordic countries since the beginning of the 1990's

[103] E-mail January 11, 2004.
[104] www.eqt.se. The information was verified by Stefan Holmér in an e-mail of January 11, 2004.
[105] Interview Stefan Holmér, Controller at EQT. December 19, 2003.
[106] Telephone interview Stefan Holmer, Controller at EQT. January 20, 2004.
[107] Telephone interview Stefan Holmer, Controller at EQT. January 20, 2004.
[108] www.eqt.se
[109] www.eqt.se

and have a large and productive network with a good inside view of the market. IK, NC and other Swedish private equity firms not taken into consideration in this study are defined as competitors on the Swedish market. Foreign competitors are mostly Scandinavian investors, mainly because it is difficult for foreign actors to enter the Swedish private equity market without the help of the Swedish PEFs[110]. The competition is nothing that has forced EQT to look for investment opportunities outside the Swedish boarders. "*We see the lack of network on foreign markets as an entry barrier, even though surmountable, and it is vice versa for the foreign competitors entering the Swedish market*" says Stefan Holmér[111], the reason why EQT do not see foreign private equity firms as threatening.

It was a natural step to expand to the Nordic countries when the cultural differences and geographic distance is small. The experience gained by EQT on the Swedish market could also be used here and the broad network built up reached the Nordic region. Germany was the next step in the internationalization of EQT and was feasible due to an already existing network on the German market and a good understanding for the culture. Due to the success on the German market and in other German speaking countries EQT founded an office in Munich year 2000, which is now the largest office besides Stockholm. Before the fund EQT Northern Europe focusing its investments on Northern Europe was created, EQT recruited competent personnel with the help of two partners who had a broad knowledge of the German market[112]. Another reason why EQT find it quite easy to expand to the Northern European is that the European business jurisdictions are quite the same in all countries.

EQT have a commitment toward their investment up to ten years, which allows them to hold on an investment throughout a longer period of time than what is usual in the investment business. The German market along with other European markets has had three years of downturn, which have affected the investments made and questions from investors have been raised regarding the decision to internationalize, although the investment have not yet been realized. "*We established our office in Munich just before the downturn, in hindsight it might have been better to wait with the expansion but this is an unpredictable market and despite the downturn we did pretty well. Munich is now our second largest office and we recently made a promising German deal in the Dental market*"[113].

There is at the moment no direct need or strategy of expansion toward southern and eastern Europe or even England, although the seventy professionals at EQT already have connections in additional countries as mentioned above. The negotiation, corporate structure, social and cultural differences form a risk which is too large in relation to the investment required for such an expansion[114]. The EQT model of business is not easy to implement and supervise, which makes it difficult for persons with different background to work according to it[115]. Stefan Holmér cannot see EQT established in a country where they have no local network. "*It is very hard to do business when the priorities are different between the parties. An example is the time-perception that is indifferent to Arabic countries, whereas in Sweden and Northern Europe time is considered as very important and we work rational and in processes*"[116]. It would also be problematic to invest in a socialistic country where the government could come

[110] Interview Stefan Holmér, Controller at EQT. December 19, 2003.
[111] Telephone interview Stefan Holmér, Controller at EQT. January 20, 2004.
[112] Interview Stefan Holmér, Controller at EQT. December 19, 2003.
[113] Interview Stefan Holmér, Controller at EQT. December 19, 2003.
[114] Interview Stefan Holmér, Controller at EQT. December 19, 2003.
[115] Telephone conversation with Stefan Holmér, Controller at EQT. January 16, 2004.
[116] Telephone interview Stefan Holmér, Controller at EQT. January 20, 2004.

in and take over the business, which is why EQT avoids investments on such markets. The brand image does not play an important role for EQT and they do not work actively with brand imaging. On the other hand the reputation within the industry and corporate world is vital for them as for all private equity firms. EQT does not have a direct connection with the final consumer and can therefore concentrate on building up a good reputation toward companies and investors.

EQT focuses on the Northern countries of Europe and the introduction of the next fund, called EQT IV, emphasize that as it has the same investment profile as the earlier funds. The business strategy is to minimize the risk rather than maximizing profits as before.

5.1 Industri Kapital

5.1.1 Company presentation

Business concept

Industri Kapital is a European private equity firm with Nordic roots. It acquires and develops businesses in order to earn returns for its institutional investors on the invested capital.[117]

Brief history of the company

Industri Kapital's origin lies within Enkilda Ventures, the former private equity and management buyout vehicle of SEB Group, which in 1989 sponsored Björn Savén in raising one of the first private equity funds in Scandinavia. In 1993 the Industri Kapital Group became independent through its own buyout from SEB.[118]

The investment focus is mainly mid-sized to large non-core divisions or subsidiaries of larger groups, as well as private or family businesses. In some cases, it has also acquired publicly listed companies that they have later taken private.[119] IK invests in a company for the period of about 4-5 years, before it chooses an exit by either introducing the company to the stock market or selling it to another firm.[120]

Industri Kapital have funds under management of about 3.5 billion euro and the aggregate sales of the companies that they currently hold exceed 11 billion euro. The investment strategy is concentrated on investing in companies where value can be created through long term performance improvement, e.g. through realigning strategy, sharpening focus, improving operations, enhancing margins and carrying out industry restructuring steps. Industri Kapital's philosophy is to work closely with management in the acquired businesses to achieve enhanced performance in the companies.[121]

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[117] E-mail: : Thomas Ramsay, Director Finland, Industri Kapital
[118] Interview: Michael Rosenlew, Director & Chief Executive Region East , Industri Kapital
[119] www.industikapital.com
[120] Dagens Nyheter: Riskapitalisten 031020
[121] www.industrikapital.com

Industri Kapital has investment offices in Stockholm, Hamburg, Oslo and London.

Management

Industri Kapital's Executive Committee includes Björn Savén as Chairman & Chief executive, Kim Wahl (Deputy Chief Executive), Michael Rosenlew (Director & Chief Executive Region East), Gustav Öhman (Director & Chief Executive Region West). Under each region follows a director for each specific country.

5.1.2 Strategy and Internationalization

Investments – strategy and policy

IK's criterion, when evaluating an investment, is the potential to improve the performance of the company. During its holding period Industri Kapital supports portfolio company management in such aspects as focusing the business, achieving operational excellence, participating in industry restructuring & making add-on acquisitions, finding expansion opportunities as well as stimulating an entrepreneurial management culture. On average the profits of the companies in which it has invested have nearly doubled during its ownership.[122]

The seller is often invited to stay in the company as a minority owner. This allows the seller to further develop his ideas and allows Industri Kapital to take advantage of the knowledge of the seller and provide the acquired business with a significant degree of continuity.

IK acquires European businesses, which often have an international or sometimes global reach. IK has local nationals covering their respective markets from the offices in Europe. The investment professionals origin from ten different countries and speak fourteen languages.

The skills and knowledge from previous investment experiences provides a strong platform for making investment decisions as well as supporting management in acquired businesses. IK also leverages its resources and network to help the company financially through add-on acquisitions, additional equity and debt financing.[123]

The equity capital for Industri Kapital's investments is provided by a number of large Nordic, European and American institutional investors. The professionals at IK represent a broad range of backgrounds, nationalities, and professional experience. The firm combines expertise in general management with financial skills to serve its mission to create value.[124]

Geographic Focus and Structure of Funds and Portfolio Companies

Industri Kapital has a portfolio of 26 different companies with a total of approximately 60 000 employees, making them one of the largest and most powerful actors on the market.[125]

The investments are focused within 7 main areas which, although concentrated, provides IK with a wide range of investment possibilities:

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[122] E-mail: Thomas Ramsay, Director Finland, Industri Kapital. January 11, 2004.
[123] www.industrikapital.com
[124] www.industrikapital.com
[125] Dagens Nyheter: Riskapitalisten, October 20, 2003.

- Building materials
- Food processing
- Manufacturing
- Media
- Retailing and wholesaling
- Service
- Specialized process

Summery of IK's Internationalization strategy

IK started as a private equity firm focusing on the Nordic countries, but with the headquarter in London and was therefore in some ways already international in 1989. Our definition of the internationalization of PEF states that a PEF is internationalized when its investments are made outside the Swedish borders and not when capital for these investments is international. So IK started as a Nordic PEF with investments in the northern countries and then developed its strategy and vision towards investments in other European countries.

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From 1993, IK started focusing on other potential markets in Europe, to grow with the companies in their portfolio. When the portfolio companies would have to expand into foreign markets, Industri Kapital wanted to expand in the same direction in order to stay competent and provide the necessary skill and knowledge for further development of their investment. They believed that in order to have a future in Europe and continuous growth, IK had to internationalize.[126] "*The managed amount of capital and the geographical market goes hand in hand. meaning that the more money you have, the larger the geographical surface of your business area.*"[127]

An important part of IK's investment strategy is to have a strong local presence on the market that they choose to invest on, so they can adapt to the cultural and language differences. The strategy has therefore been to find local personnel that are familiar with the markets concerned and could facilitate IK's implementation in each market. This strong local presence enables Industri Kapital to source, screen and execute investments more effectively, as well as securing the best exit routes.[128]

Benelux was IK's first investment region outside the Nordic countries and Germany was the second. Before opening its German office, IK recruited a German Director who initially was based in the London office in order to get familiar with the IK corporate culture and the IK working process.[129] IK now has investment offices in London, Stockholm, Hamburg as well as Oslo and investment teams covering the Nordic countries, German speaking Europe, Benelux and France. It avoids entering the southern countries like Spain, Italy, Greece and the new Eastern countries of the European Union, because the cultural differences are still perceived too great. This can lead to difficulties when adapting local teams to work in an IK-fashion.[130] . It is also important to remember that the invertors in the funds wants IK to invest in the markets and companies that they know best in order to minimize their risks. This in turn leads to that IK will be very careful before entering new markets, although their objective has

[126] Interview: Michael Rosenlew, Director & Chief Executive Region East , Industri Kapital
[127] Interview: Michael Rosenlew, , Director & Chief Executive Region East, Industri Kapital
[128] E-mail: : Thomas Ramsay, Director Finland, Industri Kapital
[129] Interview: Thomas Ramsay, Director Finland, Industri Kapital
[130] E-mail: Thomas Ramsay, Director Finland, Industri Kapital

always been to expand within the sectors that they have the necessary know-how and network.[131]

In the last few years, there have been an increasing number of actors on the PE market. The competition is increasing with more sophisticated sellers and more buyers. The increased competition has only partly affected IK, because they feel that they have a large enough market and can diversify their investments.

The Network and brand name have been important aspects in the strategy of IK. When expanding to new markets, they use local personnel that have their own network and knowledge, which is then added to the global network of IK. The brand name on the other hand has taken some bad publicity in the past years in Sweden, but IK feel confident that they have a strong image in other countries and especially with investors.[132]

Swedish tax and law structure is not seen as a problem. The funds are placed in a region where the investors are taxed in their home country, which ensures the investors that they are only going to be taxed once on their profit.

IK will concentrate on the markets where they are active, but feel that a clear potential is developing in the EU, which will bring new and interesting markets and investment possibilities in a few years.[133]

5.3 Nordic Capital

5.3.1 Company presentation

Business concept

Be a leading Nordic management-buy-out firm focusing on medium to large companies in mature industries with specific competence in the health-care industry.

Brief history of the company

Nordic Capital, founded in 1989, is an independent private equity investment firm operating in the Nordic region, primarily in Denmark, Finland, Norway and Sweden, but also occasionally looking at investment opportunities in Continental Europe. It has been a leading investor in each of the 51 buyouts that Nordic capital has been involved in. The fifth fund (EUR 1,5 billion) was initiated in 2002[134].

[131] Telefon interview: Thomas Ramsay, Director Finland, Industri Kapital
[132] Interview: Michael Rosenlew, Director & Chief Executive Region East, Industri Kapital
[133] Interview: Michael Rosenlew, Director & Chief Executive Region East, Industri Kapital

[134] Interview: Joakim Karlsson, Director, Nordic Capital

Management

It is partnership owned by CEO and founder Robert Andreen, co-founder Morgan Olsson, Bo Söderberg (1997), Anders Hultin (2001), Toni Weitzberg (2000), Ulf Rosberg (1994), Christian Dyvig (2003) and the two industrial partners Felix Björklund (1998) and Lars Spongberg (1999). The five directors are Kent Stevens Larsen, Peter Hansson, Joakim Karlsson, Kristoffer Melinder and Robert Furuhjelm. Nordic Capital has six investment managers, one CFO, and one financial controller. Overall Nordic Capital's executive team consists of 22 investors with varied experiences from a range of strategic, operating and financial areas. Offices are located in Stockholm, Helsinki, Oslo, and Copenhagen with partners meeting every Monday in Stockholm[135].

5.3.2 Strategy and Internationalization

General Investment Strategy and Policy

Generally speaking Nordic Capital provides financial and managerial support and involvement to the companies they invest in. The general goal is to create long-term value rather than current profits. It is an active owner for three to seven years, and then aims to realize capital gains for its investors, through a public offering or by selling the company to an industrial buyer. When a public offer is made, Nordic Capital's investors often remain as shareholders to strengthen the institutional ownership base after the flotation.

Establishing a common agenda with management is an essential component of Nordic Capital‘s investment philosophy. That is why Nordic Capital focuses its investments on companies with strong management teams and provides, through its ownership, management participation in the form of equity ownership and performance incentives, and develops a joint plan for the business going forward.

The target companies typically have sales of more than SEK 500 million, has a strong management team and predictable cash flows and strong market positions[136]. In particular, Nordic Capital looks for opportunities where it is possible to strengthen the industrial competitiveness, e.g. add-on acquisitions and/or mergers of two companies, but it has also invested in turnarounds and development of capital situations.

Nordic Capital has invested in a wide scope of industries, primarily focusing on companies with predictable cash flows and strong market positions, strong leadership, and doing business in the Nordic countries. Another criterion is that an IPO should be possible within 3 to 7 years. The common investment criteria have in all situations been a clear potential for earnings, growth and sustainable competitive advantages. Nordic Capital will continue investments in traditional industry. Although a focus on the healthcare sector is developing since they made it a separate sector with a responsible director in 1999. They later recruited a former vice CEO at Pharmacia corporation, in order to gain competence and an already established network[137]. The company prefers long range and ethical business relations as supposed to profit maximizing and strives to have a good reputation in the market place. The

[135] www.nordiccapital.se
[136] www.nordiccapital.se
[137] Telephone interview: Kristoffer Melinder, Director, Nordic Capital

company makes no investments in pornography, tobacco, or military industry and investments are also restricted not to compete with investors businesses[138].

Geographic Focus and Structure of Funds and Portfolio companies

Nordic Capitals funds are set up in Jersey where investors are taxed in their home country. The firm has a EUR 1.5 billion fund - Nordic Capital V - with commitments from large Nordic, European and US institutions. Moreover, Nordic Capital may access substantial additional funding from investors through an established co-investment scheme.

Nordic Capital holds 17 investments today, with a sales value from SEK m 250 to 6.000 in 2002. Industries represented are for example biotechnology, fitness, high-tech and medical care. Nordic Capital has done two investments the last year but peaked its investments in 1999 and 2001. The last exit was in late 1999 when Hilding Anders was divested. Examples of companies still in the portfolio are: Wilson Logistics group, Nybron Flooring International, and Biovitrum among others[139].

Summery of NC's Internationalization strategy

Nordic Capital has, as the name implies, concentrated on the Nordic market since the start in 1990. The majority of investments in the early 1990's were made in Sweden as Joakim Karlsson states[140]: "Establishing in Nordic countries was slow since the Swedish business was so successful and we didn't feel a need to expand more". The investors in the first two funds were Swedish, while the company attracted Nordic investors in the third fund and international investors in the fourth and fifth.

Behind the strategy to be an actor on the Nordic market was the fact that they found it easy to expand on the Nordic markets because these are similar although they have some historical differences. J. Karlsson also sees advantages with the Nordic market since the company has competences and knowledge of these markets and because there is a business logic that connects these markets[141].

They see a hardened competition on the Swedish market, since the business is relatively mature, which can be observed by looking at the number of private equity transactions/BNP and by looking at the number of foreign or international funds which is increasing in Sweden with for example Permira, 3i and rumors of more companies entering the scene. This is however not a reason for expanding on the other Nordic markets or Europe since they feel that they have a competitive advantage towards foreign firms in that: "More emotion than you would think (is involved), Nordic companies want Nordic investors and closeness"[142].
Competing PEFs on the european healthcare market are global actors such as Apax and Warburg Pincus. Nordic Capital considers itself as one of the top four actors in europe[143].

Nordic Capital is aware of the problem that they might be missing out on foreign investments that could fit well together with Swedish investments. The company, therefore, puts a lot of

[138] Interview: Joakim Karlsson, Director, Nordic Capital
[139] www.nordiccapital.se
[140] Interview: Joakim Karlsson, Director, Nordic Capital
[141] Interview: Joakim Karlsson, Director, Nordic Capital
[142] Interview: Joakim Karlsson, Director, Nordic Capital
[143] Telephone interview: Kristoffer Melinder, Director, Nordic Capital.

emphasis on alliances with local funds outside the Nordic region to complement its business. When discussing why Nordic Capital is not expanding outside the Nordic countries, many disadvantages or problems are stated. Nordic Capital finds it is very hard to establish a business in other countries. One problem is that it is hard to transfer knowledge and also difficult to find and recruit competent personnel. Nordic Capitel sees cultural differences as an obstacle and even states that it would be difficult to recruit a local team in, for example, Spain[144]. Another reason is that, by looking at other examples in the industry, a foreign office can feel forced to make investments to prove their existence and therefore might not do the best investments. It is costly in time and money to open an office with a network in a foreign country and the employees might feel obliged to make investments not to be considered unnecessary by the headquarter. As stated earlier, brand image and firm reputation is important and Nordic Capital would have to build this in a foreign country before establishing themselves.

The strategy for future expansion of Nordic Capital is based on competence and experience[145]. Nordic Capital will not choose a foreign market and then create an organization to handle that market. The strategy is instead to continue to primarily focus on Sweden and the Nordic countries where they feel that they have competence, knowledge, and a competitive position.

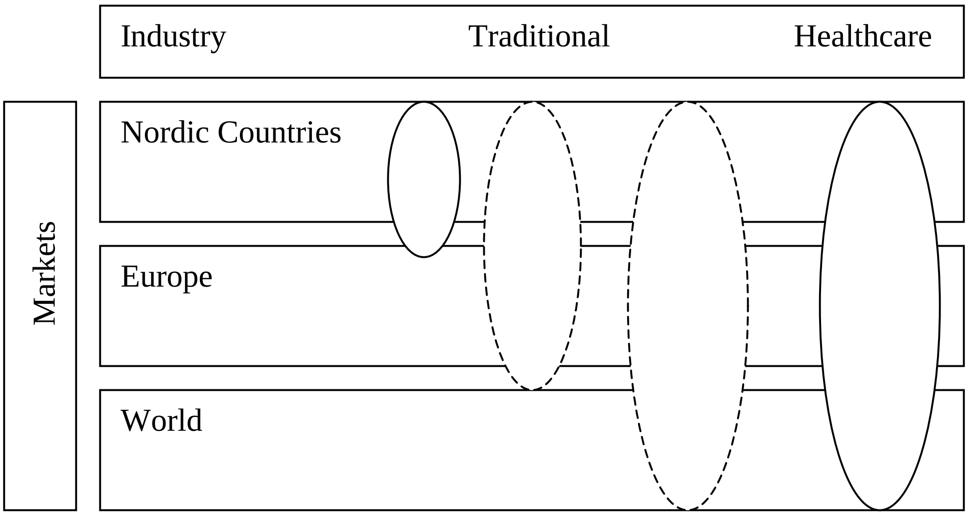

Figure 10: Nordic Capital's expansion strategy

However, in industries such as healthcare where the company has experience, competence, and a large network, an expansion is possible and already existing. The company is investing and will continue investing in Europe in industries where they have a background. In other industries they will concentrate in the Nordic countries to build competence and move to other markets as they feel the level of competence in the company is right.

[144] Interview: Joakim Karlsson, Director, Nordic Capital
[145] Interview: Joakim Karlsson, Director, Nordic Capital

5.4 Ratos

5.4.1 Company presentation

Business concept

Ratos is a listed private equity company and the business concept is "*to generate, over time, the highest possible return through the professional, active and responsible exercise of its ownership role in a number of selected companies and investment situations, where Ratos provides stock market players with a unique investment opportunity*"[146].

Brief history of the company

Once a year, the journal "Veckans Affärer" ranks Sweden's 50 largest risk fund companies. In March 2003 Ratos was ranked seven[147]. The history of the company goes back to 1866, but it started to take the form of what it is today during the 1930s, when Ragnar and Torsten Söderberg established "Förvaltningsaktiebolaget Ratos", where Ratos referring to the first names Ragnar and Torsten. In 1954 the company was floated on the stock market and is today quoted on the Stockholm Stock Exchange, O-list. During the years Ratos has operated as a mixed investment company by acquisitions, buying and selling companies such as Brødrene Dahl, Tibnor and Scandic Hotels. During the late 1980s Ratos formed the subsidiary Inter Forward but soon refocused on pure investments. In 1999 today's CEO Arne Karlsson was asked to accept the post he still holds, but he had one demand that was to make Ratos a pure private equity company. Ratos claims to be a pioneer in private equity in Sweden and the new strategy was back in 1999 met by skepticism by its shareholders. Based on studies saying that the return on private equity was higher than on other types of investment strategies they stuck to their new business concept, and so far Ratos has been able to deliver what the shareholders have been promised[148]. They then sold Scandic Hotels to Hilton Group Plc. and all asset management with listed shares was phased out. The acquisitions of Atle and Lindab have helped to complete the new strategy and profile.

Management

The Board of Directors consists of Olof Stenhammar (1994), Lars Berg (2000), Peggy Bruzelius (1998), Göran Grosskopf (1996); Arne Karlsson CEO of Ratos (CEO since 1999), Jan Söderberg (2000) and Per-Olof Söderberg (2000). All board members have other board memberships or assignments and everyone but Lars Berg has shareholdings from 2.000 B-shares to 3.188.363 A-shares[149] in Ratos. The main share of votes is held by what is referred to as "others" in the list of owners. The Söderberg family and the Söderberg foundation are other important owners, holding 43.7% and 25.6% of the share of capital respectively and 17.3% and 15.5% of the share of votes respectively.

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[146] www.ratos.se November 17th 2003
[147] Veckans Affärer volume 13, Mars 24th 2003, page 25.
[148] Interview: Clara Bolinder-Lundberg, Investor Relations Manager, Ratos
[149] The difference between A and B-shares are the number of votes per share.

5.4.2 Strategy and Internationalization

General Investment Strategy and Policy

The characteristics of Ratos investment strategy are purely private equity as mentioned above. Ratos strategy is normally to become the principal holder with 20-50% of the shares, always with a professional, proactive and responsible active ownership that lasts 3-7 years, which is considered average in the private equity market[150]. The investments are SEK 250 million-1.500 million and its portfolio comprises 15-20 holdings, preferably unlisted companies of varying size. Geographically Ratos is focused on the Nordic region, foremost Sweden, for acquisitions and more globally for exits.

Objects for Ratos investments must have competitive advantages in their sector and a strong management. The objective for each individual investment is that the return (IRR) should exceed 20% in average annual return for the period of the ownership. Overall objectives with the investments are that the total return on Ratos shares should exceed the average on the Stockholm Exchange over time. Ratos aims to add value through acquisition, development and divestment of companies. Typical investment situations, that interest Ratos, are companies in a capital-intensive growth phases, in companies with a need for changed financial structure or a need for added value and focus, in bridging situations, succession changes or buy-outs and acquisitions. Occasions when Ratos can contribute to a company's development are during growth phases, structural changes, internationalization, and when profitability problems arise.[151]

It is the business organization, consisting of 17 employees, that is involved in the investment process. Sometimes companies contact Ratos asking them to make investments but Ratos also has what they call a list of ideas with up to a hundred interesting investment objects at a time. Only a few, sometimes only one, of the ideas are actually realized into investments. Ratos then forms a team consisting of both senior investment managers and junior investment managers that work within the holding company throughout the duration of the investment, which varies from 3-7 years. The Ratos team, taking a great deal of the managerial responsibility, has daily contact with the holding company and is represented in the board of directors. The same team is present in the exit phase. Ratos consider itself being industry generalist meaning that investments are made in all industries.[152]

Before an investment is effectuated Ratos develops a business plan together with the company and the co-investors that throughout the investments duration is used as a control system. Ratos produces risk and return analysis for the investment and has to keep itself updated on issues in the individual company as well as in the sector as a whole. Ratos then uses its influence through its presence on the board of directors. Ratos role is to act as an adviser by assisting with analysis, target and strategy formulation as well as financial competence and financial resources. The active ownership held by Ratos aim to develop the company in question and when the targets set up in the business plan are met, Ratos goes to the third and last phase in its value adding role – divestment. The right time for divestment is when Ratos ownership no longer creates value. The responsibility of Ratos is the same during this phase and the individual company's long-term development is taken under consideration. Every

[150] Nyman, Michael. "Riskkapital – Private equity- och venture capital-investeringar" 2002.
[151] www.ratos.se
[152] www.ratos.se

year an evaluation is made of all holdings based upon their original business plan to see if any changes have to be made.[153]

Ratos does not invest in companies that are in an early phase of their life cycle and it is relatively alone in its investment span and the only player in this category listed on the Stockholm Stock Exchange.

Geographic Focus and Structure of Funds and Portfolio Structure

Ratos current portfolio consists of 17 holdings, after Hilding Andersons exit this year November 24, with an ownership stretching from 25-77% with two outliers: 100% ownership of Haglöfs, a Swedish producer of equipment and clothing for active outdoor life and only 9% of the shares and 19% of the votes in Overseas Telecom, a Swedish company in the telecom business operating in developing countries. Overseas Telecom is a profitable company that is why Ratos has chosen to keep it, although the overall strategy is to become the major owner. The holdings of Ratos are represented in Sweden and the Nordic region with the exception of the holding in Gadelius based in Japan since 1907, which has become part of the Ratos portfolio by hazard. Gadelius is a distributor of Swedish high-tech products in niche markets in Japan. The company came along when Ratos together with 3i bought out Atle from the Swedish stock market in 1999[154]. Examples of holding companies are Dahl and Atle Industri.

Summery of Ratos' Internationalization strategy

Ratos has chosen to concentrate its business in Sweden and the Nordic region with the exception of Gadelius accompanying the buy-out of Atle from the Stockholm Stock Exchange in 1999. Ratos investments are made in companies in Sweden and the Nordic region, although they have a global exit strategy and emphasize the strong responsibility the company takes in the exit phase.

There are three reasons why Ratos has chosen to stay on the Nordic market. First Ratos wants to be geographically close to its investment objects. Second, Ratos is different compared to the other private equity firms we have studied, because it is listed on the Stockholm Stock Exchange and has a responsibility towards its shareholders to be open. Ratos believes that the shareholders feels more comfort and trust in investments made in Nordic companies where it is easier to control those companies and have a better insight into their business. Within the Nordic region, Ratos has been able to expand their network by buying companies and using their network and market knowledge to build their own infrastructure.[155] The cultural differences within the Nordic region are not very large and have not affected Ratos in their decision to internationalize. In Sweden, Ratos also has "Investmentbolagsskattestatus". A third reason to invest in the Nordic region is that the competition is very strong on the global market. Ratos consider itself to small to compete on the European market or on the World market compared to, for example, 3i, and confident in their position in Sweden and in the other Nordic countries.[156] It takes a lot of assets to establish abroad, and the transaction costs for such an expansion is not likely, while Ratos feel that they there are enough of investment opportunities in Nordic region.[157]

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[153] E-mail: Clara Bolinder-Lundberg, Investor Relations Manager, Ratos
[154] Interview: Clara Bolinder-Lundberg, Investor Relations Manager, Ratos AB.
[155] Telephone interview: Clara Bolinder-Lundberg, Investor Relations Manager, Ratos AB.
[156] Interview: Clara Bolinder-Lundberg, Investor Relations Manager, Ratos AB
[157] Telephone interview: Clara Bolinder-Lundberg, Investor Relations Manager, Ratos AB.

Additionally Ratos is a strong trademark in Sweden and the Nordic region. The competence in the business and their knowledge both about the region and the business is well established, due to that their experience on the market goes back to 1866. After more than 100 years on the market, Ratos has been able to acquire a strong and reliable network within the Nordic region.

5.5 Discussion

To summarize the empirical study presented above, we conclude this chapter with a discussion concerning the internationalization of the four private equity firms.

The geographical focus of the investments of the PEFs is similar. They are all interested in investments in Sweden, the Nordic countries and Northern Europe, although Ratos is a little more restricted geographically and concentrated its investments in Sweden and the Nordic region. Certain geographical markets such as Spain, Italy and Greece are excluded in all four Cases due to their cultural and social differences. The Swedish tax-regulation and the business jurisdictions do not have a significant impact on the Swedish PEFs studied, because they place theirs founds abroad in order to ensure their investors a one time taxation.

The Swedish market is considered mature and the case companies consider each other as competitors. Ratos emphasize the importance of the brand image, whereas the other firms concentrate on track-record, performances but include the importance of having a good reputation within the industry. All firms mention the importance of networks and connections on the market in order to succeed. The figure below (figure 9) projects an image of the four case firm studied.

The Strategic Differentiation Choices

Private Equity Firm	Industri Kapital	Nordic Capital	EQT Partners	Ratos
Geographic Focus	Northern Europe	Nordic Region	Nordic Region/ German Speaking Europe	Sweden/ Northern Europe
Industry Focus	All industries	Health Care/ Hybrid	All industries	All industries
Operational expertise & involvement	General manage ment	General manage ment	General manage ment expertise	General manage met
Situational focus	All situations	Mergers/ add-on acquistiti on	Family owned business/ subsidiari es	All situations
Size of investment	EURO 50-200 million	EURO 50-200 million	EURO 50-350 million	EURO 25-150 million

Figure 11: The Strategic Differentiation Choices

6 Analysis

The chapter starts with a deeper explanation of the analysis so that the reader easily can follow the authors reasoning. We then analyze the essential differences between private equity and other industries, the driving forces and influential factors of internationalization, which are linked to the theoretical framework. The summarizing discussion results in ***The Internationalization Matrix****, first applied on the four private equity firms studied and second on the three regions Sweden, the Nordic region and Global.*

6.1 Introduction

In the analysis, focus has been on trying to define the most important and reoccurring influential factors of internationalization. There exist both internal and external factors that will affect the PEF's decision to either focus within a certain region or expand to other areas. In the empirical study it is shown that different aspects affect the four PEFs in their strategy formulation, and therefore in their internationalization as well.

1. The chapter will commence by introducing the difference between Private Equity and other industries in order to give the reader a deeper understanding of the PE industry and the influential factors affecting it.

2. The next section will discuss the driving forces behind the internationalization of the firms studied, this will then lead on to a description of the factors influencing the firms' strategy formulation.

3. The factors are then put in relation to theory presented in the theoretical framework. The theories can partly be used to describe the four firms, although they do not cover all the different factors influencing the choice to internationalize.

4. The fourth section will describe these factors in relation to the four PEFs and analyze the differences and similarities between the firms to find a common pattern. Emphasis is made on the relationship between these factors towards the strategy for internationalization. This will in turn lead to our last part of the Analysis.

5. The last part will focus on describing the seven most influential factors on internationalization, according to the PEFs studied and the theory used in the theoretical framework, with the internationalization matrix. The first matrix is based on the four PEF, and the second explains these influential factors and the implications they have within three geographical regions:

   - Sweden - Nordic Region - Global

6.2 What distinguishes private equity from other industries?

A conclusion that can be drawn from the study is that the private equity business is different from other product or service businesses. This influences the overall strategy and internationalization in particular. Many comparisons can be made with service companies, but only in the phase where the PEF provides a service for foreign as well as Swedish clients. When selling the service the firm has to market itself in the same way as service firms do. The difference is that the PEF makes investments, execute the service, and it is this part that we have focused on in this thesis. In chapter one, internationalization was defined as investments outside its domestic market, and not when attracting foreign investment capital.

A PEF, when investing abroad, is not consumer driven and therefore not affected by the same driving forces as other firms in general. An established PEF has a lot of freedom to decide for itself what and where it wants to do business and is not driven by forces like product life cycle or production efficiency in the same way as producing firms. An influencing factor, which is seldom mentioned by the firm, is that the ambitions of the management groups and their vision will have a great impact on the strategy. There are no given triggers but rather a conscious strategy procedure that is developed and redeveloped as an ongoing process.

An advantage to PEFs is that the investments are made after clients have invested in a fund, or in the company, and that the PEF therefore can shape the investments made after the size of the fund. In consumer service businesses the company has to be present at all times and a service is usually produced before payment is received and the problem of demand management has to be handled, a problem that is avoided by PEF's. Private equity is about estimating risk, which is a subjective matter and will be done by the employees at the firm using their knowledge and experience. Therefore, it is not surprising to see that PEF's are reluctant to enter a market where they don't feel that the appropriate level of knowledge has been reached.

The factors affecting a PEF are common and can be observed in other industries. The main difference is that there are no clear triggering factors, apart from the spotting of a profitable opportunity, and that PEF's in many ways are able to shape their own strategy taking into account the internal capabilities of the firm. External factors will have an influence on which countries the firm decides to invest in, although it should be said that these factors are not considered to have a great impact, or are at least surmountable, in northern Europe and decreasing within the EU region in general.

6.3 Driving Forces

The driving forces behind internationalization cannot easily be explained, and differ between the firms. A mix of factors often lead to a formulated strategy which will influence the work done in a firm and take into account factors that might affect the firm during its internationalization. Thus the driving forces and the strategy are closely connected and firms focus on what is needed after having decided to expand outside the domestic market. The Nordic region is seen as one market due to comparable circumstances, and the decision to expand to other Nordic countries than Sweden is not seen to be driven by any forces in particular except for the need of a larger market.

Industri Kapital's close relationship with the portfolio companies, who worked globally, made them internationalize. The firm felt a need to develop and acquire knowledge about markets outside the Nordic region to be able to assist the companies. It was therefore seen as a natural step to adopt a strategy to expand inside Europe. Nordic capital gained expertise through experiences in the healthcare industry and adopted a strategy to specialize within that industry. This expertise could be used abroad and the firm decided to expand to other markets when doing healthcare investments. EQT deepened their internationalization strategy by a successful investment in Germany which led to the development of the business in German speaking countries, as they felt that their knowledge and expertise could be extended to those markets. Ratos, on the other hand, chose to concentrate within the Nordic region where they have well developed competences and an established network.

It has been impossible to isolate single driving forces behind the internationalization of Swedish PEF's, although by creating a larger market, PEFs can enlarge their investment possibility. This can in turn lead to risk diversion and a bigger potential income. All companies will expand to perceive more prosperous investment possibility. What is interesting is that the factors influencing the strategy formulated will continue influence the firm when trying to implement the strategy.

6.4 Factors influencing internationalization

6.4.1 Theory VS Reality

Internationalization and its influencing factors are often hard to define. Some might argue that a firm's decision to expand to other countries is based on a well-developed strategy and has been part of the business plan for years, where as others might say that it is simply a strategy, which has developed through circumstances. The theoretical framework has included some theories defining the factors that affect the decision to internationalize, but oversees the factor of "money". All PEFs and companies will internationalize to increase their profit although they might use other terms to explain their actions. The PEFs studied in our thesis manage such a large capital that it has become necessary to expand outside Sweden to find the potential investments. They also have the financial capability to make that expansion and will in turn increase their investment possibility through a broader market which can lead to larger funds and a greater potential earning for the PEF. This can in turn be related to the Path dependency described in the theoretical framework.

The School of Uppsala focuses on the experience, market knowledge and internationalization knowledge, and apply them to a new market. These very important factors are further being proven during the interviews with the PEFs. Although the experience is not directly taken into account in the previous part of our analysis, it is directly related to market knowledge, which is formed by earlier experiences. EQT and IK, which both have taken the path toward internationalization in Europe, have both applied previous knowledge and experience to succeed. Nordic capital has on the other hand focused within a certain branch, i.e. healthcare, and used that experience to advance on the European market. This model concentrates on these factors in order to find a cycle that can explain the process of internationalization, but by doing so it cannot give an overall picture of the triggering factors.

The cultural differences are seen as psychological distance in the Uppsala model, which affects the choice of the potential new markets. PEFs are largely affected by the cultural differences between the different markets. When a firm decides to invest in a company outside of their domestic market they will be directly affected by differences in working habits, languages and traditions that in turn will force the PEFs to adapt to those changes. All four PEFs have acknowledged the difference in culture and working habit and have therefore not gone further south, to Spain and Italy, and the Eastern Europe. These cultural differences are emphasized in Ellis and Williams's theory in the theoretical framework. The theory points out four factors: political, economical, social and technological factors, that triggers the internationalization and PEFs are also affected by those factors. The tax regulation of Sweden have on the other hand not affected the choice of internationalization, although the political differences between countries have caused the investment to be directed toward markets in the Northern part of Europe. It is also political and economic changes that have made internationalization possible.

Wright also sees experience and the know-how within the firm as the most important factor behind internationalization. The general human capital of the employees which can be applied abroad and the know-how of the management and within the industry forms the possibility of where the firm might be able to internationalize and is vital to the success of an expansion abroad. They can represent triggering factors through the ambition of the management and their vision, but can also be seen as necessities in order to internationalize, because a firm without the necessary competence and know-how can and will not be successful. This can be related to Nordic Capital, which has chosen to focus on healthcare, because of the know-how and the human capital it has within that industry, via the two partners coming form Astra Zeneca respectively Pharmacia & Upjohn. It can also be related to EQT, which has chosen a geographic focus to the German speaking Europe since they have gained experience and know-how of these markets. This is relevant for the other PEFs as well, although none of them are that focused.

The Financial capital needed to internationalize will have to be raised and is provided by the investors of the fund. These will be demanding a good return on their investments in order to finance the internationalization of the PEF. There has to be sufficient experience and know-how within the firm to be able to convince the investors that this is the right step to take and that the risk is not too great. Ratos and Nordic Capital put considerable weight on the fact that it would take a large funding to establish an office with the necessary competence and network in another country in Europe and have therefore decided to stay in the Nordic countries.

Hellsten focuses on circumstances that can trigger a firm to internationalize. These can be internal triggers such as the business activity of a firm, customers/investors or external factors like the market. When the potential investments within the domestic market run out, PEFs will have to expand their horizon toward other markets where they have or can get the necessary knowledge to be effective. A decline in the business activity can trigger a PEF to internationalize in order to find more attractive investment, although Sweden and the Nordic countries have according to NC and Ratos more than enough potential investments.

The investors can also demand the company to be closer to them, although this is not as relevant as the PEF being close to its investment. According to the PEF interviewed, there is no direct link behind the decision to internationalize and the investor's location.

When circumstances are affecting the development of an industry, path-dependency often plays a role. The larger the PEF and the more capital it has acquired, the larger its influence on the market. It can buy a majority post in all of its companies and have a more diverse portfolio, where others might not be able to invest in more than a few companies, which forces them to take a higher risk. So the larger the PEF, the larger its potential benefit and the less the risk they are obliged to take.

Figure 4 in the theoretical framework projects a more general image of the factors, but divides them within meta, industry and firm level. During our study we have discovered that they all play a role in internationalization of PEFs, although, according to our four case studies, it seems that the firm level is the main influential factors. If the experience, knowledge and network exist, then the other surrounding factors can be handled and surmounted. They are all interlinked as the theory suggest and when the company has the necessary competence to enter a new market, the cultural and political differences vanish because the firm already has the capacity to handle those changes. Some Meta factors such as entry barriers can affect the choice to enter a country, even though the PEF might have the necessary skills to be efficient in that country. There are monetary differences, which can affect the transaction cost and produce loss due to currency exchange rates. There can also be an internal opposition to sell a company to an outsider, if there also is a local buyer.

Ellis and Williams also points out competition as a triggering factor. When the competition within a certain area increases, it often creates a shakeout where firms are forced to internationalize outside their borders. In the case of the PEFs studied in our thesis, the competition is growing, but they assert that they still hold the upper hand and that there still is a vast amount of potential investments in the Nordic region.

Another important factor affecting the degree of internationalization is the network that the firm has in an industry and country. J. Johanson and A. Blomstermo have in the theoretical framework described the importance of networks for a company when introducing themselves to a foreign market. IK and EQT have recruited local personal, with the necessary network and market knowledge, in the specific countries where they have decided to open offices. This is valid for all four PEFs, although NC and Ratos only have offices in the Nordic countries. NC has however recruited and built a network in the healthcare industry that they can use outside Sweden.

6.4.2 Discussion

It is impossible to distinguish any one factor as the most important in influencing a firm’s internationalization decision. External and internal factors affect the investment strategy that a company formulates, comprising the internationalization aspect. The strategy in turn affects the work the firm does in trying to manage external influences and also what it does when acquiring internal capabilities to meet with the strategy and goals of the firm. What complicates the matter even more is that most of the factors above also have an intertwined relationship.

Past experiences and networks will partly account for the market knowledge of a firm. This knowledge can be acquired gradually as in Industri Kapital’s case where knowledge of foreign markets has been built up through following the portfolio companies when expanding abroad. It is however difficult to say if the market knowledge acquired is leading to the internationalization strategy or if it is the internationalization strategy that leads to the conscious acquiring of market knowledge. Market knowledge, however it is acquired, is crucial to internationalization as no firm would enter a market of which it has no prior knowledge or experience, either obtained by the firm itself or acquired by recruitment or networking. A similar reasoning can be made about experience and network. What is relevant is that firms and individuals within the firm will use their network in every way possible to influence the firm's position. It is much easier to use an already established and trustworthy contact in the network when a certain competence is needed then to recruit on a market of which they have little or no knowledge.

Nordic Capital has by executing some successful healthcare investments decided to focus on the healthcare industry where a strong network and competence has been acquired through experiences. They have also recruited competence to further increase their knowledge. Their strategy to focus on the Nordic market has thus changed because they feel that they have a certain competence in the healthcare industry and feel comfortable expanding to other European countries within that industry.

Reputation is crucial to business in general, although the PEFs put more emphasis on the importance of a good track record. Brand image is also a factor and bad publicity always hurts the reputation of a firm although PEFs never deal directly with the end consumer and thus mostly have to represent a good reputation towards investors and business actors. Business actors and investors are driven by economic incentives and are, thus, not too influenced by brand image of the PEF, but rather the economic proposal and track record and also the experience the firm has. Since no tangible product is sold, competition is not based on brand image but on other factors.

Our case study is based on the information coming from four of the top PEFs in Sweden which are listed in appendix 2. As market leaders, they have a safe position on the Swedish market and are well aware and consider each other (Industri Kapital, Nordic Capital and EQT) as competitors with the exception of Ratos, which is listed on the stock and whose business structure and the investment strategy differs from a non-listed PEF. Ratos do not have funds provided by a few large investors but are, like any other organization noted on the stock exchange, bound to their home market and their many shareholders in a stronger way. The decision making process in Ratos differs from other PEF, when their decisions have to go through a more complicated process with more decision makers. They are also dependent on the fluctuation of the Ratos-stock. Domestically, the PEFs find themselves being safe from the competition both from each other and foreign players on the Swedish market, since they are all niched, have a good track record and a well functioning network. The competition on the Nordic, European and Global market are the opposite for the Swedish PEFs. On the European and global private equity market, they are the foreign firms trying to establish themselves on a market with already defined roles and players. Competition on the domestic market is thus not a factor, which has triggered the firms to look for investments abroad but have an influence on firms trying to establish abroad.

An external factor acting as a barrier to enter a new market is cultural differences. Firms perceive the differences as great even between European countries and are reluctant to enter southern or eastern European countries because of the fear that cultural differences are too great and will hinder their success. Nordic Capital even states that the cultural differences are so great that it would be difficult to recruit a local team in, for example, Spain and organize the team to work according to the Nordic Capital manners. Once again there is a relationship between different factors. It is impossible for a firm to change the culture of a country and the only way to handle these differences is by education, gaining of experience and using actors in a network that have the knowledge and are accustomed to the culture. An unsuccessful establishment can however be costly, so the firms attempt to risk minimize by only entering countries where they feel they have the needed knowledge to handle the cultural differences. Cultural differences globally can be very large and there are countries, which the firms would never consider entering even if a good opportunity would arise. It is mostly because of cultural differences that Swedish PEF's are reluctant to enter countries outside northern Europe but social factors might also have an influence. Eastern European countries are overlooked as an investment opportunity due to instability, both economical and political. The EU is however setting new standards that the firms feel, in the long run, will create stability and equal conditions.

6.5 The Internationalization Matrix

To summarize the discussion and the reoccurring influential factors presented in the analysis, we have formed a matrix, presented as figure 10 below. The Internationalization matrix is based on the factors we have defined as influencing the internationalization of Swedish private equity firms. These factors were found during the empirical study of the thesis and are related to the theory chosen to support this work, and previously analyzed in this chapter.

	Private Equity Firm / Variables	Industri Kapital	Nordic Capital	EQT Partners	Ratos
Internal factors	Market Knowledge	Acquired through portfolio companies working globally.	Nordic focus. The exception is healthcare.	Northern Europe. German speaking countries.	Historical knowledge of the Swedish market. Expanding to Nordic countries.
	Past experiences	Background in banking mixed with management experience.	Experience in healthcare industry.	Experienced in German speaking countries. Specialized on family-owned middle-sized companies.	Experienced in traditional Swedish industry.
	Network	Making use of a large international network.	Well-established network in Sweden and the Nordic regions. Large network in the healthcare industry.	Emerging from Investor, they have a well worked out network on the Swedish capital market. Building a network in German speaking Europe.	Established 1866 Ratos network in Sweden is strong.
	Reputation	Has taken bad publicity in the past years in Sweden, but investors relations still good. Emphasis on track record.	The good reputation in the Nordic region would be very hard and costly to build up abroad. Emphasis on track record.	EQT does not see the brand as a factor influencing their level of internationalization. Emphasis on performance and track record.	A strong and positive image in the Nordic region. The fact that Ratos is listed is their competitive advantage and bad publicity could cause the firm sever damage.
External factors	Competition	Increasing competition on domestic market is not driving the internationalization due to secure position. Competition as entry barrier on foreign markets.	Increasing competition on domestic market is not driving the internationalization due to secure position.	Increasing competition on domestic market is not driving the internationalization due to secure position. Competition as entry barrier on foreign markets.	Increasing competition on domestic market is not driving the internationalization due to secure position.
	Cultural differences	Differences in corporate culture are stopping IK from entering markets in southern Europe.	Avoiding markets outside Nordic countries due to cultural differences.	Differences in corporate culture are stopping EQT to enter markets in southern Europe.	Cultural differences is not what stops Ratos from further internationalization.
	Social impact	Social impact not seen as a factor in EU with exception of new eastern member countries.	Social impact not seen as a factor in EU with exception of new eastern member countries.	Social impact not seen as a factor in EU with exception of new eastern member countries.	Keeps the "investmentbolags-skattestatus" in Sweden. As a listed limited company the Swedish laws and the political climate heavily influence Ratos.

Figure 12: The Internationalization Matrix

We will further describe the seven factors presented in the internationalization matrix. These explanations will further enforce our interpretation of the influential factors and provide the necessary knowledge to make further analysis possible:

- **Market knowledge:** When we talk about market knowledge we refer to the knowledge a PEF has about a specific geographic market. The market knowledge decreases with an increasing geographical distance.

- **Past Experiences:** Past experiences in all matters, such as experiences in private equity matters as well as industry specific knowledge, influence the level of internationalization. Being experienced in a specific industry can be the reason why a PEF chooses to focus its investments in that particular industry, such as healthcare or high-tech. It will have a great impact on the level of internationalization when it comes to finding investment possibilities when the domestic market is thought to be too small.

- **Network:** Fund investors, intermediaries of business opportunities, owners of possible portfolio companies and so on constitute the network of a PEF. The network is crucial when it comes to finding fruitful business opportunities, both domestically and internationally, thus it has an impact on the level of internationalization. When a PEF chooses to internationalize, a good network is built up in advance and recruitment of competence needed is done before entering the market in question. This is a costly process and might hold a PEF back from internationalizing.

- **Reputation:** The overall reputation includes the brand image, the track record and the opinion of industrialists concerning the PEF. The reputation is of great importance within the business where the PEF operates, but it is more or less irrelevant what the public think. It is although of great importance what opinion investors, industrialists and business owners have of the PEF. Brand image is very important when it is connected to a good reputation in the business, but PEFs that have experienced bad publicity seem to withdraw the attention from the brand image and emphasize the importance of achievements and a good track record. Also, if the PEF has a well-known brand name in Sweden it might choose to stay on the domestic market and save the resources needed to build up the brand image abroad. The track record is the most important factor for foreign actors in assessing a PEF's competence and former investments.

- **Competition:** There is a first mover advantage in the private equity business. The private equity industry started to develop on the Swedish market in the late 80s and early 90s. The PEFs that have been in the game since the start are today the ones that have grown strong and competitive. The competition is hard internationally speaking, meaning that it is hard to establish a PEF abroad where they would have to compete with the domestic players. It is likewise for foreign PEFs when trying to establish their business on the Swedish market.

- **Cultural differences:** In general, the greater the geographical distance, the greater the cultural differences when it comes to operating in the private equity industry. These differences make it harder, more problematic and very costly to transfer know-how within the organization across national borders, and can be a reason to stay on the domestic market or choose to invest in neighbor countries. A PEF choosing to operate only on the domestic market will not be affected by the cultural differences arising when internationalizing. The cultural differences grow with the geographic distance but there are sometimes considerable differences between the Nordic countries as well, depending on different historical backgrounds. Whatever the country, corporate culture and business manners are strongly influenced by the national culture and industry history.

- **Social impact:** When using the term "Social Impact" we refer to tax-regulations, legal systems, political climate, economical conditions and technological progress of the country or region in question. The very strict Swedish tax-regulations are easily by-passed legally when choosing where to place the fund, assuring that the profit will be imposed by tax only once. A country with a political climate favoring the industry and focusing on issues making it easier to do business is of interest for all PEFs. A stable economical climate is preferable and the greater the risk or the worse the business cycle, the fewer the investments made. The weak exit-market in Sweden has been a trigger to internationalize exits and turn to a global market. Although all PEFs interviewed emphasize the importance of a satisfying exit from the portfolio company's point of view, a responsibility that lies in the hands of the exiting private equity investor.

To further summarize the geographical importance of the seven influential factors presented above, a second matrix will be presented (figure 11). This matrix puts the seven influential factors in relation to three geographical areas, chosen in order to best describe the general influence these factors have according to the four PEFs studied in our thesis. This is also done to further strengthen our view that the internationalization of the PEFs studied are affected by several factors in a complex mix. The seven factors influence will also differ depending on the geographical market discussed.

The Internationalization Matrix

		Sweden	Nordic Region	Global
Internal factors	Market Knowledge	Very good market knowledge on the home market.	Good market knowledge in the Nordic region.	Decreasing market knowledge.
	Past Experiences	The PEFs have a broad experience in the different parts of private equity business on the domestic market.	The experience in the Nordic region is also good, due to a long tradition of doing business.	The experience is poor in global private equity matters due to few opportunities.
	Network	Starting up on and being present on the Swedish market has helped building a good network.	A network is built up during the investment process or by recruiting experienced personnel.	A network is generally established before entering a new geographic market.
	Reputation	The brand image is important to domestic actors, an assured domestic market position a reason not to internationalize.	Band image important but not crucial to success. Track record and renown important.	The overall reputation and track record are important to the firms' success.
Internal factors	Competition	Market leaders do not feel threatened. Hard for foreign private equity firms to enter the Swedish market.	Swedish PEFs feel comfortable and not threatened by increasing competition	Fierce competition makes it difficult for foreign firms to operate.
	Cultural Differences	No cultural differences	Small or surmountable cultural differences	Obvious cultural differences.
	Social Impact	The Swedish tax-regulation is buy-passed legally when placing the funds in other countries. Economical condition is under high influence by North America's. Political climate is not beneficial but stable.	No or little social difference between the Nordic countries.	Great differences concerning the society structure is an entry barrier. Economical climate are often globally guided by the American and western world conditions.

Figure 13: The Internationalization Matrix

The Internationalization matrix helps the reader focus on the essential factors that influences a private equity firm to internationalize. Some represent external entry barriers, others are internal strength or weaknesses, but all influence the PEF's choice to internationalize or not. The complex relationship between these factors and their overall implications in the strategy formulation of Swedish PEFs will be further developed in the conclusion.

7 Conclusion

In the last chapter of our master thesis we sum up the thesis in totality and state the general impression from a comprehensive point of view. We have a concluding discussion around the Swedish private equity firms, their choices of internationalization and what distinguish their industry. We conclude the chapter by the theoretical implications where we gives our opinion on what further studies would be interesting in this matter.

7.1 Introduction

The Swedish private equity market is well developed, although it is still small in comparison with others. The four PEFs studied in our thesis hold a strong competitive position in the market and are well aware of each other's presence. This enables the firms to gain a comparative advantage towards new entrants through controlling a large part of the market and through its extensive networks. The situation might be different on other larger markets (England & USA) where there are more actors and a stronger competition.

It is important to remember there are factors influencing the firms' choice to internationalize, but the PEFs studied are driven by the potential of the internationalization. They might have the necessary competences and knowledge to enter one country, although the true driving force is to expand and make more prosperous investments. All four private equity firms have expanded their business to enlarge the market and the investments possibility depending on the internal and external factors influencing the firm.

7.2 Theoretical Implication

The private equity business is an interesting environment to study and from this thesis we can conclude that general internationalization theory can not fully explain the driving forces behind the internationalization of PEFs, although it offers a good starting point. We have observed, after our study, that the business structure of PEFs is not given a lot of consideration in the field of internationalization theory. The theory within internationalization is however useful in determining the essential factors influencing the internationalization process, which can be related to private equity firms. In our analysis, we have applied the theories to the four private equity firms studied, and have found that the theories can be a base to understanding the influential factors, although the factors are not included in only one theory. There is however factors in different theories, when added together, form the seven factors presented in the Internationalization matrix.

When internationalizing, we have noticed that the strategy often differs, even though the firms' organizations and networks are very similar on the domestic market. Ratos is an exception since it is noted on the stock exchange and can therefore not be compared in the same manner. The other firms have given different reasons behind their choice to internationalize and work according to different strategies. In our Analysis, we have tried to demonstrate that the firms when forming strategies, although built upon the same economic prerequisites, chose alternative paths depending on their internal driving forces. The driving forces have in turn affected the firm when they are completed by the experience and the new knowledge gained from the internationalization process. The PEFs studied are not triggered by any one external factor presented in the theoretical framework when they internationalize, but are influenced by them when forming their strategy.

7.3 Internal VS External

The influential factors, both internal and external, are often linked together. Even the internal factors might in the end facilitate the implementation on other markets and change the importance of cultural differences. Internal knowledge taken in through prior experiences will facilitate in overcoming the cultural differences. It has also been shown that the reputation and track-record of the firm is very important when approaching potential investments and attracting new investors. The study has shown that the internal factors have a stronger influence on the strategy and the decision to internationalize than the external factors. The network, market knowledge and past experiences within a firm are the primary factor driving a firm toward new potential markets. The competences of the management and the track record of previous businesses have proven to be the key to succeeding in other foreign markets. The external environment has an impact depending on the country chosen. The four firms studied have only expanded to northern Europe and have not experienced the cultural and social differences as important, although these represent the reason why they have only chosen that specific degree of internationalization. The external factors do not influence the choice to internationalize, but rather the decision of towards which country the expansion is made.

In the Analysis, we discussed the driving forces and influential factors affecting the level of internationalization. The internal and external influential factors affect the formulation of the firm’s strategy which in turn leads to new activities providing new experiences. Since the strategy is not static, the firm will develop the existing strategy with help from new experiences which makes for a continuous loop. The formation of the strategy is, in our opinion, a continuous process where internal and external factors affect the firm, which has to adjust its strategy through time. In order to better comprehend the process, we have constructed a model (figure 12) which projects the formation of strategy as an ongoing process.

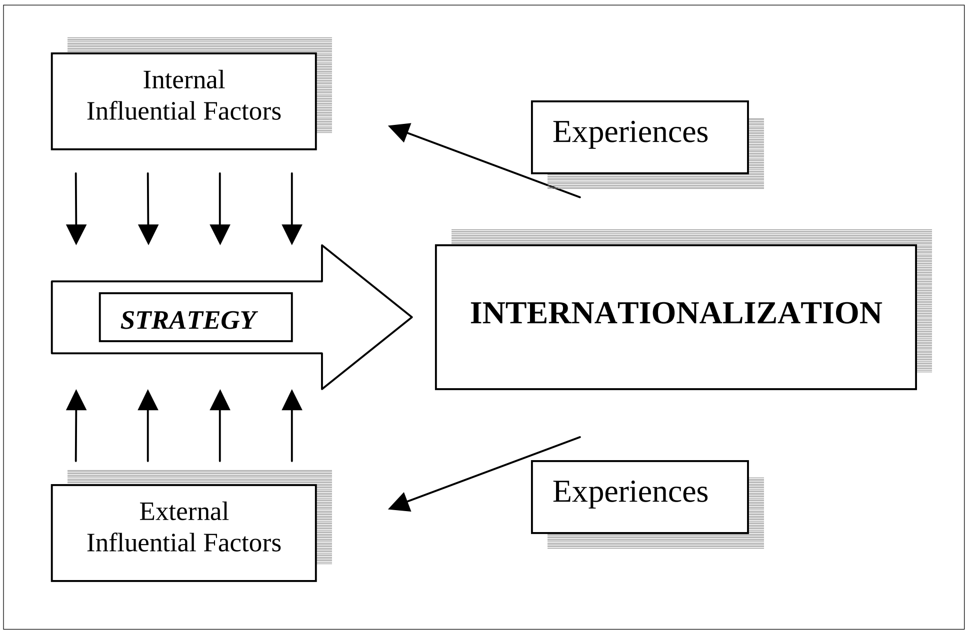

Figure 14: The internationalization process

The relationship between the different aspects of the model (figure 12) is closely connected to each other and this relation will be further presented in the following passage. When the firm has internationalized, it will gain new knowledge and an extended experience which will be added to the internal capabilities and used to handle the external factors through building new strategies. Market knowledge and networks are affected by past experiences and a firm's market knowledge will improve by extending its competence and building new networks through acquisitions and recruitment. These networks will in turn provide the firm with greater market knowledge and facilitates other acquisitions on that market. The track record is used to market the knowledge and experience that a firm has acquired and is important in order to attract potential investors and investments. The more extensive the experiences a firm has, the stronger is the possibility of a more reliable track record which is added to the know-how of the firm.

External factors such as social and cultural climate will affect the strategy. A firm will not expand to a market which differs from the domestic market to such an extent that the firm's internal capabilities are no longer competitive. Experiences of foreign operations will change the firm's perception of these differences and lead to a greater ability to adjust to these external factors. The competitive climate can either force a firm to expand to a foreign market because of fierce competition on their domestic market or open opportunities in other countries because of a lack of competition.

7.4 Industrial Implication & further research

Even though our conclusion can not be generalized to all PEFs, it offers an insight in the business and its internationalization. From an industrial point of view, the thesis can serve as a foundation to comprehend the business of PE from a strategic aspect through four of the largest PEF in Sweden. It can also be useful in order to spot the influential factors that these firms project as the most important ones and the process on which they are built.

In this thesis, we found the basic influences and driving forces behind PEFs choice to internationalize which opens the door to more profound studies on the matter. First of all, a quantitative study of Swedish private equity firms would be of interest to see if the influential factors found here are applicable on minor and more niched PEFs. Is it possible to generalize when talking about the influential factors? Second, we have seen a lot of studies made on the internationalization process of different risk capital firms, but not a profound case-study made on a Swedish private equity firm’s internationalization process. Since this is a growing business, the case study would be of interest for other PEFs to learn from. Third, it would be interesting to study the structure of mergers, acquisitions and buy-outs among PEFs, both across nation boarders, and within Sweden. Are mergers and acquisitions a way to grow and get stronger and more competitive? Is this the a way to internationalize and bypass the process of having to gain experience and knowledge, overcoming cultural differences and get a broad, well-functioning network right away? Or maybe PEFs want to stay small with a core management?

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www.nutek.se
www.evca.com
www.svca.se

8.2 Interviews

8.2.1 Profound Interviews with Case Companies

EQT Partners AB: Stefan Holmér, Controller.
December 19, 2003

Industri Kapital: Michael Rosenlew, Director & Chief Executive Region East
December 1, 2003

Industri Kapital: Thomas Ramsay, Director Finland.
December 1, 2003

Nordic Capital: Joakim Karlsson, Director.
November 27, 2003

Ratos: Clara Bolinder-Lundberg, Investor Relations Manager.
November 25, 2003

Additional Contact with Case Companies:

EQT Partners AB: Stefan Holmér, Controller.

- *E-mail December 22, 2003.* E-mail correspondence in order to sum up the interview, the written information and the work being done before Christmas.
- *E-mail January 2, 2004.* Additional questions regarding internationalization and other matters of interest for the master thesis.
- *E-mail January 11, 2004.* A last check of the facts and information in the business presentation
- *Telephone conversation January 16, 2004.* A discussion regarding EQT’s and Stefan Holmérs opinions concerning the business description and general guiding.

Industri Kapital: Michael Rosenlew, Vice VD, and Thomas Ramsey, Director.

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Nordic Capital: Joakim Karlsson, Director.

- *E-mail December 22, 2003.* E-mail correspondence in order to sum up the interview, the written information and the work being done before Christmas.
- *E-mail January 2, 2004.* Additional questions regarding internationalization and other matters of interest for the master thesis.
- *E-mail January 11, 2004.* A last check of the facts and information in the business presentation.
- *Telephone Conversation January 20, 2003.* Discussion with Kristoffer Melinder.

Ratos: Clara Bolinder-Lundberg, Investor Relations Manager.

- *Telephone conversation November 27, 2003.* A short summery of the interview given two days earlier.
- *E-mail December 22, 2003.* E-mail correspondence in order to sum up the interview, the written information and the work being done before Christmas.
- *E-mail January 2, 2004.* Additional questions regarding internationalization and other matters of interest for the master thesis.

- *E-mail January 11, 2004.* A last check of the facts and information in the business presentation.
- *Telephone Conversation January 19, 2003.* Discussion surrounding the Business presentation of Ratos and their influential factors.

8.2.2 Expert Inverviews

Torbjörn Carlbom, editorial secretary, the magazine ”Veckans Affärer”.
November 13, 2003.

Janne Lindroth, reporter, the magazin ”Affärsvärlden”.
November 13, 2003.

Håkan Nelson, CEO Malmöhus Invest, board director 1998-2002 Swedish Venture Capital Association.
December , 2003.

Additional Expert Contacts:

Jan Johanson, doctor in international business administration, Uppsala University.
- *E-mail November 13, 2003.* Advice concerning relevant literature and other sources for information like studies made by among others Mr. Johanson.

Roland Larsson , employee The Swedish Tax Authority.
- *Telephone conversation November 14, 2003.* Discussion regarding the Swedish Tax regulations concerning international business.

Cecilia Skingsley, editorial secretary, finance division at Dagens Industri.
- *Telephone conversation November 13, 2003.* Discussion around the choice of case companies, how to find relevant up to date information e.t.c.

8.3 Appedix

Appendix 1: Interview guide line.
Appendix 2: Listing of the fifty largest risk capital firms active on the Swedish market. Published in Veckans Affärer issue Mars 24, 2003.

Appendix 1

Underlag till intervjuer med fallföretagens kontaktpersoner

Vi skulle vilja diskutera nedanstående frågor med utgångspunkt från de bakomliggande faktorerna till ert val att internationalisera er:

- *Externa faktorer*: brist på investeringstillfällen i Sverige, riskspridning, skatt- lagstruktur, ökad konkurrens på hemmamarknaden

- *Interna faktorer*: investerare/ägare, kunskap, erfarenheter, finansiella resurser, nätverk

- Finns det andra faktorer som spelar in som ni vill tillägga?

1. Hur ser ni på marknaden för vc/private equity i Sverige?
   - Mognadsfas?
   - Hur ser konkurrenssituationen ut?
   - Framtidsutsikter?
   - Utländska investerare i Sverige. Påverkande faktor?

2. När började ni utöka er verksamhet till andra länder?
   - Varför valde ni att investera utanför Sveriges gränser?
   - Medveten strategi eller slump?
   - Vilka var avgörande faktorer?

3. Var det rätt tidpunkt? Ser ni några nackdelar/fördelar med internationalisering?
   - Finns skillnader i utvärderingskriterier?
   - Skillnader i investeringsstruktur och engagemang?

4. Nu, när ni valt internationalisering, finns det en strategi?
   - Vilka marknader?
   - Hur stor del av verksamheten/investeringar ska göras utomlands?
   - Hur tas besluten? Vem/vad påverkar (se ovan)?

5. Strategi för framtiden?
   - Framtida expansion/internationaliseringsgrad?
   - Alla marknader potentiella om rätt möjlighet dyker upp?
   - Stegvis, långsiktig expandering?
   - Vision?

Appendix 2

SVERIGES 50 STÖRSTA RISKKAPITALBOLAG

	FÖRETAG	STARTÅR	FÖRV. KAP. MKR	INV. KAP. MKR	NYA INVEST. 2002, ANTAL	NYA INVEST. 2002, MKR	TILLÄGGSINV. 2002, ANTAL	TILLÄGGSINV. MKR, 2002	AVSKRIVNA 2002, ANTAL
1.	EQT Partners [3]	1995	32 000	21 000	4	u.s.	8	u.s.	0
2.	Industri Kapital [3]	1989	30 000	25 500	3	2200	6	800	0
3.	Nordic Capital [3]	1989	22 200	7 500	2	u.s.	2	u.s.	0
4.	Investor Growth Capital	1995	15 900	11 900	u.s.	u.s.	u.s.	u.s.	u.s.
5.	CapMan [2,3]	1989	15 120	956	12	740	6	216	1
6.	Sjätte AP-fonden [1,2]	1997	11 621	5 900	1	92	16	975	2
7.	Ratos [3]	1954	8 300	8 300	0	0	2	239	0
8.	B-Business Partners	2000	7 500	810	3	135	6	126	2
9.	3i Nordic [3]	1992	7 500	7 500	12	1060	30	390	u.s.
10.	HealthCap	1996	5 866	2 701	12	471	32	365	2
11.	Bure Equity [4]	1992	4 600	u.s.	u.s.	u.s.	u.s.	u.s.	u.s.
12.	Industrifonden [3]	1979	3 700	1 800	35	204	55	240	20
13.	IT Provider	1997	3 000	1425	5	55	11	70	1
14.	Procuritas Partners [3]	1986	2 943	811	0	0	1	10	0
15.	Scandinavian Life Science Venture	1997	2 200	800	1	u.s.	u.s.	u.s.	u.s.
16.	Ledstiernan [4]	1994	1 850	u.s.	u.s.	u.s.	u.s.	u.s.	u.s.
17.	Danske Venture Partners [3]	2000	1 850	650	3	150	8	140	1
18.	InnovationsKapital	1994	1 800	530	4	54	15	71	4
19.	Northzone Ventures	1995	1 400	900	1	20	10	150	7
20.	Brainheart Capital	2000	1 300	667	2	22	25	229	1
21.	Euroventures Management [3]	1985	1 200	1 000	0	0	2	u.s.	u.s.
22.	Skandia Investment [3]	1983	1 200	900	4	250	2	40	3
23.	Segulah [3]	1994	1 200	400	1	u.s.	1	u.s.	u.s.
24.	ACR Capital/Slottsbacken	1996	1 100	403	4	75	7	28	1
25.	Industrial Development & Investment IDI	1997	1 020	881	0	0	5	37	0
26.	Nordico Equity [3]	1999	1 000	600	2	100	0	0	0
27.	MVI Sverige [3]	1992	1 000	1 000	8	83	14	46	3
28.	SEB Strategic Investments	2000	1 000	864	1	15	5	69	0
29.	Litorina Kapital	1998	1 000	450	1	u.s.	u.s.	u.s.	u.s.
30.	H & B Capital	1999	866	546	0	0	5	24	0
31.	Norrlandsfonden	1961	850	502	40	59	34	64	u.s.
32.	Traction [3]	1974	800	750	0	0	4	u.s.	u.s.
33.	SEB Företagsinvest	1995	800	706	5	36	24	128	1
34.	POD Holding	2001	800	225	0	0	u.s.	15	0
35.	Emerging Technologies [4]	2000	700	u.s.	u.s.	u.s.	u.s.	u.s.	u.s.
36.	Skanditek [3]	1983	600	528	2	11	4	7	2
37.	Askembla Asset Management [3]	1994	575	215	0	0	0	0	0
38.	Four Seasons Venture Capital Management	1983	550	530	0	0	4	21	0
39.	European Equity Partners	2000	530	330	0	0	5	120	2
40.	Dunross & Co	1987	500	500	2	3	u.s.	u.s.	0
41.	Startupfactory	1999	500	350	2	15	5	40	u.s.
42.	Volvo Technology Transfer	1997	500	325	2	17	11	61	4
43.	Karolinska Investment Management Fund	1999	500	226	2	15	9	56	0
44.	ArghNor Wireless Ventures	2000	500	125	2	37	4	34	0
45.	Koi	1974	480	480	0	0	1	10	0
46.	ITP	1995	400	350	0	0	4	11,5	0
47.	Springboard Capital	1999	370	240	0	0	3	15	2
48.	Alpha 1 Venture Capital Fund	2000	360	280	0	0	4	10	2
49.	Sätila Holding	1996	350	350	2	90	0	0	0
50.	Itact	1999	314	199	0	0	3	21	0

[1] Antal investeringar och avskrivna bolag avser endast direktinvesteringar [2] Avser nordisk verksamhet
[3] Arbetar helt eller delvis med olika typer av buy-outs och/eller investeringar i mogna bolag [4] Uppskattat av Veckans Affärer