

International Private Equity Investors as an Emerging Transnational Community and their Impact on the German Business System

Paper for:

23rd EGOS Colloquium, Vienna, Austria, July 5-7, 2007 | Standing Working Group 1: Comparative studies of economic organization: Transnational communities – Complex dancing patterns across and within national borders

Convened by:

Marie-Laure Djelic
ESSEC Business School/Paris (France) | E-Mail: djelic@essec.fr

Sigrid Quack
Social Science Research Center Berlin (Germany) | E-Mail: quack@wz-berlin.de

Submitted by:

Knut Lange
Freie Universität Berlin, Institute of Management
Boltzmannstrasse 20 | 14195 Berlin | Germany
Tel.: +49-30 838 53385 | Fax: +49-30 838 56808 | E-Mail: Knut.Lange@wiwiss.fu-berlin.de

Florian Becker-Ritterspach
University of Groningen, Dept. of International Business and Management
PO Box 800 | 9700 AV | The Netherlands
Tel.: + 31 (0) 38 423 58 88 | Fax: + 31 (0) 50 363 3720 | E-Mail: florian.br@gmx.de

1. Introduction

This paper seeks to contribute to an emerging body of literature that is concerned with the questions of transnational institution building (e.g. transnational spaces, communities, fields) and how such processes of transnationalization play together with national institutional frameworks and effect changes in business systems (e.g. Morgan, 2001; Djelic and Quack, 2003; Djelic and Sahlin-Andersson, 2006).

Empirically our paper focuses on the private equity sector. The private equity sector was until recently confined to the Anglo-Saxon Business Systems. However, in recent years private equity firms have increasingly become a more international phenomenon both in terms of their country-of-origin and country-of-destination of their investments. Therefore, this industry presents an interesting test case to investigate whether it is developing into a transnational community and moreover to what extent international private equity firms are transforming national business systems. In other words, we explore in this paper two questions: First, we ask whether the international private equity sector (IPES) can be regarded as an emerging transnational community (TC). Second, we ask, whether and in what way national business systems are transformed by the interaction with IPES.

Regarding the first question, we examine whether private equity investors active in Germany and from different origins act in a similar way. Since Germany lacked until recently a private equity culture, the country suggests itself as a research context. Regarding the second question, we look at the impact of the IPES on German firms. In our view, the case of Germany is particularly interesting because the comparative capitalism literature has considered Germany a coordinated or cooperative market economy (Whitley, 1992; Hall and Soskice, 2001). In this type of economy, institutions promote long-term relations between the actors which are regarded as highly conducive to incremental innovations and diversified quality production (Streeck, 1991). More specifically, a constitutive element of this type of business system is seen in long-term relations between firms and their house banks. With the involvement of international private equity investors, this relationship maybe altered and replaced by a more short-term oriented Anglo-Saxon business model with possibly negative consequences on the innovative capacity on these firms. Thus, since long-terms credits or ‘patient capital’ are regarded as a key element for

Germany's comparative advantage in incremental innovations, the question arises, how private equity investors influence the German business system and particularly the strategies and organizational practices of companies focusing on diversified quality production.

To address these questions conceptually, we draw on the following bodies of literature. First, drawing on Morgan (2001) and Scott (1994) we develop a definition of transnational communities (TCs). This definition serves as a basis to evaluate the extent to which the internationalizing private equity sector can be regarded as a genuine transnational community.

Second, based on opposing positions on how processes of internationalization affect or interact with national contexts (Held et al., 1999; Morgan, 2001) we propose an open framework that considers three different outcomes for the constitution of business systems. These outcomes can vary between global convergence, unchanged divergence and new divergence or better novel configuration. We expect that firms embedded in transnational communities and national institutional frameworks face a situation of 'institutional duality' (Kostova and Roth, 2002). What kinds of outcomes such diverse institutional pressures produce with regard to the business system (re)constitution discussed is left to empirical exploration.

The paper is structured as follows: In the following section, *section two*, we present a working definition of transnational communities as well as a framework to capture different outcomes of business system development resulting from their interaction with transnational communities. In addition, we conduct a literature review on the genesis and the business models of private equity investors to provide some background and understanding of the sector. We end section two with a review of recent findings on changes on the German business system and its institutional setting. *Section three* focuses on first empirical evidence. We first explore to which extent the international private equity sector can be regarded as an emerging TC. In a second step we investigate to what extent the international private equity industry is transforming key features of the German business system and its institutional context. Section four provides a summary and discussion of preliminary findings. Our paper is explorative in nature and draws on literature review and desk research. We would like to stress that the paper is but a first step to inform further research on the private equity sector in Germany, involving expert interviews and extensive case studies in firms at a later stage.

2. Conceptual Frameworks and Literature Review

2.1 A Working Definition of Transnational Communities

In the field of international business the concept of the ‘transnational corporation’ has been around for some time. While responsiveness to different national contexts still has its role to play in the ‘transnational solution’ (Bartlett and Ghoshal, 1998), it is the network-like character and the important role of socialisation as an integration mechanism that can be seen to create a distinct type of economic actor. In other words, it is an economic actor whose identity cannot be simply deduced from one particular national context.

More recently, institutionalists and organization scholars – particularly the comparative institutionalists from Europe – have adopted the term ‘transnational communities’ from migration and ethnic studies (Morgan, 2001). Here too, the question is raised whether a transnational level – although interacting with other levels such as the national – constitutes a context of behaviour, identity and institutionalization in its own right. While different processes of internationalization are identified for the emergence of transnational communities a central notion of the concept of transnational communities is that they are constituted by actors – be they individuals or organizations – that interact frequently and/or share cognitive frames of references that stretch beyond the nation state.

To identify transnational communities in our study, we draw on Scott’s (1994) understanding of ‘organizational fields’ and Morgan’s (2001) understanding of ‘transnational communities’. Scott’s sees an organizational field as mainly constituted by cultural and behavioural elements and defines it as “a community of organizations that partakes of a common meaning system whose participants interact more frequently and fatefully with one another than with actors outside the field” (Scott, 1994: 207-208). An important aspect of Scott’s (1994) field concept is for our research context that field borders are not geographically defined. In a similar vein, Morgan (2001) stresses the development of new shared understandings, meanings and identities that result from interactions between individuals or groups within a transnational space, seen as a “social space *sui generis* that cannot be reduced to the interplay of pre-existing national groups or interests” (115). Morgan (2001) defines transnational communities as consisting of “structured interactions between social actors located in more than one national setting” and sees these

interactions as not primarily based on contracts and markets but “on the recognition of a shared set of interests within a specific transnational social space, interests that are distinctive from nationally based interests” (Morgan, 2001: 117). Morgan specifies the nature and emergence of transnational communities as follows:

[T]ransnational communities do not have to consist of pre-existing ‘ethnic’ identities stretched across national boundaries. Instead they can be emergent, arising from prolonged structured interaction across national boundaries based, for example, on work and economic activity. These communities are not exclusive forms of social identity; social actors can participate in multiple transnational and national communities. Again, transnational communities cannot be understood as simple bottom-up responses to globalization; they have to be conceptualized in terms of the interplay between top-down projects of transnationalism, pursued by powerful actors, and bottom-up processes of mutual identification and collective awareness since it is through this interaction that transnational social space is created, distinctive from the national level. (Morgan, 2001: 118)

Drawing on Morgan (2001) we see three developments in the internationalization of business activities that have the potential to create a social space for the emergence of a transnational community. The first concerns the internationalization of firms, the border-crossing activities of MNCs. The second development, involves the creation of regulatory frameworks to coordinate international economic activity. And the third is the development of shared cognitive and normative frameworks through common practices in business education, management consultancies and other global professional service firms. Morgan sees particularly in the last area the possible emergence of ‘ideological’ transnational communities.

Similar, indicators for identifying emerging transnational communities or fields can be drawn from the new institutionalist work (DiMaggio and Powell, 1988; c.f. Geppert et al., 2006). In this perspective, we may seek to identify coercive, mimetic and normative pressures that stretch beyond the nation state thereby giving us a lead for the emergence of a transnational field or community. Specifically, we may identify: a field wide adoption of rules, regulations and business standards or practices that are stemming from the problem of legitimacy and political influence exerted by powerful actors on other actors; a field wide diffusion of best business models stemming from standard responses to uncertainty; and the creation of a common cognitive frameworks based on field wide professionalization processes and standards.

2.3 Between Convergence and Divergence – Alternative concepts

While the specific question, how transnational communities impact national institutional context is a relatively recent one, there has been for some time a growing body of literature dealing with the question how processes of internationalization, globalization or transnational institution

building impact or interact with national contexts. Drawing on Held et al. (1999) and Morgan (2001) three main camps can be identified in this literature. At the extreme poles are 'hyperglobalists' and the 'institutionalists'. While hyperglobalists argue in favour of global homogenization and convergence as a result of internationalization processes, the 'institutionalists' take the opposite position, arguing in favour of continued or even deepening divergence as a result of internationalization. However, Held et al. (1999) and Morgan (2003) also identify a third position in the globalization debate in general and developing out of institutionalists and international business perspectives in particular. Labelled as 'transformationalism', scholars in this group take a more differentiated view. They focus on interactions between different institutional levels and contexts and stress outcomes that go beyond simple convergence and divergence, alternately described as 'hybrids', 'dialectical transformations', 'innovations or novel solutions' (e.g. Boyer, 1998; Djelic, 1998; Becker-Ritterspach, 2006a/b).

Drawing on the positions discussed, we can imagine three scenarios and constitutive processes of business system change resulting from the IPES involvement. These outcomes comprise: increasing global convergence, unchanged divergence and new divergence or novel configurations. They potentially result from different ideal types of interaction between transnational communities and national institutional context in the constitution of business systems.

Three scenarios

In the *first scenario*, the scenario of *global or transnational convergence*, the national institutional context and the business system adapt to the conditions and demands of transnational community/field. In this scenario the institutional pressures of the IPES is extremely high, forcing an encompassing adaptation of the national institutional framework and the business system to their demands and conditions. Based on a fundamental changes of the national institutional context (resulting from dominance effects or multilateral rule making) as well as direct resource dependencies and isomorphic pressures exerted by the IPES, the business system and their firms yield to the demands and conditions of the transnational community or field. Depending on the degree to which they have developed into truly transnational communities, the convergent forms and practices will be more or less reflective of a specific country of origin (e.g. the Anglo-Saxon context). Specifically, here we would see the German business system to largely give in to the

demands and conditions of the IPES. As a result the firms researched would mainly reflect globally or transnationally converging organizational strategies, organizational forms and practices. In the *second scenario*, in the scenario *unchanged divergence*, transnational community/field adapts to the demands and conditions of the national institutional context and the business system. In this scenario strong and coherent national institutional context and business system are resilient. As a result the IPES has to strongly adapt to the conditions and demands of the host context, implying a high degree of continuation of existing patterns in the host institutional context and business system. Specifically, in this scenario the strength and coherence of the German institutional context would be so pronounced that the IPES is forced to adapt to the host institutional context, resulting in little change of the business system. In the *third scenario*, in the scenario of *new divergence or novelty*, the national institutional context and business system adapts to the transnational community/field as much as the transnational community/field adapts to the national institutional context. Such a mutual adaptation can also be understood as a ‘translation’ (c.f. Czarniawska and Joerges, 1996; Rottenburg, 1996) or a ‘dialectical transformation’ (Becker-Ritterspach, 2006a). For the constitution of the firms in the German business system this implies newly emerging strategies, forms and practices that can be traced to the interaction between two distinct contexts. Such an outcome could be considered a new divergence or a novel configuration.

Now, while much of earlier research has seen these outcomes as irreconcilable opposites we suggest that we need to take a more fine-grained perspective on business system transformation and the constitution of their firms within the context of transnationalization. In such a view it may even be possible that all these patterns of interaction and outcomes can coexist in the transformation of business systems and the (re-)constitution of their firms. In this view, it makes less sense to label the transformation of the business system only one way or another. Rather we suggest a closer look to identify in what respect of the business system or in what respect of the firms’ organizational forms and practices which kind of interaction caused what kind of constitutional outcome. As far as German firms impacted by the IPES involvement is concerned, this may mean that their organizational forms and practices reflect in some respects the traditional host business systems (unchanged divergence), in others – decoupled from the latter – the transnational field of the IPES (increasing convergence) and in yet others, completely novel solutions (novel divergence).

2.3 Private Equity: Clarification of Concept, Origin, and Business Model

Prior to discussing the origins and business model of private equity, we need to clarify our understanding of this term. According to Leopold et al. (2003), private equity was in the beginning synonymous with the older term of venture capital, but has emerged in recent years as a more general term. The term private equity refers to equity investments in assets which are not freely tradable on public stock markets. The term includes later-stage investments, which comprise the takeover of established companies (“buy-outs”), expansion financing, and early-stage investments in start-up companies with exceptional growth potential. The latter is venture capital in its classical sense (2003). In contrast, Bygraves & Timmons (1992) regard venture capital as the more general term under which buy-out financing can be subsumed. However, they make clear that sharp distinction exist between venture capital in the form of early-stage investments and buy-out investments. For the latter kind of investments they coin the rather derogatory term of “merchant capital” (1992: 31). Finally, in the understanding of Gompers & Lerner the term of venture capital is restricted to high-risk investments in early-stage companies (2001). To sum up, scholars of private equity/venture capital agree that significant differences exist between early-stage investments in start-up companies with exceptional growth potential on the one hand, and later-stage-investments, most notably buy-outs, in established companies on the other. Based on this distinction, our understanding of private equity is rather narrow and only includes buy-out and expansion financing. Moreover, as buy-out is the dominant form of later-stage investments in Germany (Leopold et al., 2003), we focus exclusively on these. In the following, we outline the origins and business model of private equity – focussing on buy-outs – before we address in the next section the question of whether international private equity investors have become a transnational community. According to Leopold et al. (2003), buy-outs emerged as a new phenomenon in the US in the 1960s. While they were initially restricted to medium-sized companies, the focus shifted to the takeover of large corporations in the 1980s. Unfortunately, Leopold et al. (2003) do not go into further detail about the origins of buy-outs in the US. In Germany, buy-outs did not assume significant importance before 2000/2001 (Leopold et al., 2003).

An excellent source of the origins and the business model of private equity with regard to buy-outs is the contribution by Schäfer (2006). According to him, the first independent private equity company was *Kohlberg, Kravis, Roberts & Co. (KKR)*, which was formed in 1976 in New York. However, their founders Jerome Kohlberg, Henry Kravis, and George Roberts had worked for

Bear Stearns before, where they did similar transactions. Therefore, it is difficult to determine the exact starting point of the private equity industry in the US. The first fund set up by *KKR* had a volume of 35 Mio. \$., with banks and insurances as major investors. Their first transaction was the acquisition of the relatively small conglomerate *A.J. Industries* for 94 Mio. \$ (Schäfer, 2006). This acquisition displayed a central feature of the private equity industry in general and buy-outs in particular: that is, takeovers are normally financed to a smaller percentage by equity and to a larger percentage by borrowings or debts; therefore being called a leveraged buy-out. This strategy makes large acquisitions possible without a heavy commitment of capital. The debts are imposed on the acquired company and its cash-flow is used to repay the debts. The term ‘leveraged’ refers to the fact that the use of debts increases or leverages the financial return on the invested equity. Another purpose of high-debts is to put the management under high pressure. To align the interests of owners and management, the latter often receive a minority stake in the company. The holding period of an investment is commonly about 4-6 years, thus medium term. After that period, the exit is performed by a public offering, by a trade sale to another company, or by a sale to another private equity company (Schäfer, 2006).

Two and a half years after the buy-out of *A.J. Industries*, *KKR* acquired the conglomerate *Houdaille Industries* for 380 Mio. \$. In this case, the acquisition was 86% debt financed. In contrast to the first acquisition, the borrowed money involved a complex mixture of loans and high-yield bonds, also called junk bonds. These bonds have a higher risk of defaulting, but typically pay high yields to make them attractive for investors. Since investors were enthusiastic about junk bonds and their potential profits, private equity companies were able to raise huge amounts of capital and shifted their focus to large corporations. This proved to be quite profitable. In the 1970s and 1980s, many large conglomerates existed in the US, which were significantly undervalued. More specifically, the value of the conglomerate represented by its market capitalization was below the total value of its respective divisions. In addition, many conglomerates were managed in the best interest of the top managers – including luxurious perks such as many firm jets – rather than in the best interest of the shareholders (Schäfer, 2006: 18). Private equity investors seized this opportunity, acquired a great number conglomerates through highly-leveraged buy-outs, reduced costs aggressively, and sold subsequently single parts of the conglomerate with a great profit. This trend epitomized in the leveraged buy-out of the conglomerate *RJR Nabisco* for a staggering amount of 31,3 billion \$, described in detail in the bestseller “*Barbarians at the Gate*” by Burrough and Helyar (1990). However, this spectacular

buy-out proved to be unsuccessful and marked a turning point in the history of this industry. On the one hand, the ‘low-hanging crops’ for investors – badly-managed conglomerates – were becoming scarce. On the other hand, not only was the reputation of the private equity industry damaged by the aggressive investment-style, but also the reputation of the banks and foundations that had invested in private equity funds. As a result, private equity companies were forced to change their original business model towards adding more value to the acquired companies. (Schäfer, 2006).

Now, it remains to be seen to what extent their business model has not only changed but also become detached from its origins in the US business system. In the third section, this topic is examined more closely in the example of Germany. Clearly, the development of international private equity and venture capital industries and the crossing of borders by these firms is a major research gap since empirical studies have mainly focused on country comparisons (see also Wright et al. 2005). The few scholars that are contributing to this under researched field are divided over the question of an emergence of international private equity and venture capital industries. While Megginson (2004) sees a global market for private equity and venture capital emerging, Wright et al. (2005) remain sceptical and expect strong pressures on these investors to tailor their strategies and behaviour to local market conditions.

2.4 The German Business System and Recent Institutional Changes

Until recently, proponents of the comparative capitalism literature have described Germany’s market economy as a typical example of a ‘coordinated market economy’ (Hall & Soskice, 2001), a ‘collaborative business system’ (Whitley, 2000), or a ‘continental European capitalism’ (Amable, 2003). In these institutions promote long-term relations and firms have a comparative advantage in mature industries characterized by incremental innovations as a result of cooperative management-workforce relations and long-term finance. For this production regime, Streeck (1991) also coined the term of the ‘diversified quality production’. In contrast to this cooperative model, the Anglo-Saxon model has been described as a ‘liberal market economy’, in which market institutions promote short-term relations, thereby creating a comparative institutional advantage for firms in new industries characterized by radical innovations due to their superior flexibility (Hall & Soskice, 2001).

However, since the late 1990’s German capitalism has changed. A process of liberalization has set in, most notably in areas of the financial system and corporate governance. This included the

adoption of shareholder value principles by several of the large German corporations and the disentanglement of cross-shareholding networks. The latter was driven by the German banks, which reduced their shareholdings in large companies and shifted their strategic focus to the more profitable investment banking (Becker, 2001). The law of the red-green coalition government, which passed in 2002 and exempted sales of blocks of shares from tax payments, intensified this process (Höpner, 2004). Scholars in the field of comparative institutional analysis are now strongly divided over the question to what extent this liberalization has profoundly changed the character of the German business system and how it will evolve in the future. At present, three different interpretations are discernible, which assume either continuing institutional stability, the emergence of a new and stable hybrid institutional system combining cooperative and liberal elements, or a process of institutional convergence towards the market-based Anglo-Saxon model.

Proponents of the first view, most notably Hall & Gingerich (2004), argue that despite a certain amount of liberalization the key principles of the coordinated German model are still intact. Without going into further detail about these institutional changes and their consequences, they regard the changes since the 1990s as rather superficial (Hall & Gingerich, 2004: 36).

In contrast to this interpretation of a basically unchanged institutional stability, proponents of the second view, such as Deeg (2005), argue that there has been a profound institutional change in the financial and corporate governance system. As a result a hybrid business system has emerged, which now comprises a liberal order within a coordinated market context. Moreover, he discerns a bifurcation within the financial system. On the one hand, a small number of mostly large German companies and banks that have adopted the shareholder approach; and on the other hand, the large majority of German companies that have made hardly any efforts to adopt shareholder value principles. In this context Deeg also remains sceptical that the latter group will change much in the direction of shareholder value principles in the foreseeable future. Furthermore, he points out that an emphasis on the shareholder approach is not necessarily in conflict with the strong German codetermination. After all, improved corporate transparency is not only in the interest of investors but also in the interest of workers. In addition, he refers to Jackson (2003), who claims that large German firms have moved to an enlightened form of shareholder capitalism in which labour-management cooperation is retained. He also calls into question that long-term finance is of crucial importance for promoting diversified quality production. Instead

he argues that strong codetermination and collective bargaining may suffice to secure such a product market strategy (Deeg 2005).

In contrast to the hybridization argument, Lane makes the claim that the German coordinated model will converge to the model of a liberal market economy (2005). While in her view the German business system will not become identical to the US-American system, all institutional subsystems are being transformed and liberalized fundamentally. Lane (2005) strongly doubts that liberal and coordinated market orders can be integrated in one business system in the long run. In line with Hall & Soskice (2001), she assumes that such integration is constrained by requirements of system coherence. In contrast to Deeg (2005), she argues that the shareholder value approach reaches well beyond a minority of large corporations. Instead, the diffusion is seen to involve the majority of German firms based on widespread isomorphic pressures (Powell & Di Maggio 1991). Similar to Amable (2003), Lane (2005) regards the financial system as being on top of the institutional hierarchy. As it is tightly coupled with other societal subsystems, the market logic already established in the financial system will spread to other institutional subsystems, such as industrial relations, which have been up until now less affected by liberalization. Finally, she predicts that the regime of diversified quality production will not survive, as it will not be able to deliver to the high profit expectations of institutional investors and its institutional foundations will erode (Lane, 2005).

Up to now, the recent phenomenon of private equity investors' rushing to Germany has not attracted much attention of scholars of comparative institutional analysis. From our perspective, an analysis of the impact of private equity investors on the innovative capabilities on DQP firms – as a constitutive element of the German business system – and the institutional framework of Germany is a fascinating and ideal case to evaluate the competing positions of institutional hybridization and institutional convergence as represented by Deeg (2005), Lane (2005) and others in the global divergence-convergence debate (Held et al. 1999; Morgan, 2001). On the one hand, this trend represents the diffusion of the logics of financial investors beyond the DAX 30 firms as predicted by Lane (2005) – although Lane has not taken private equity as a defusing force of shareholder principle into consideration. On the other hand, an 'enlightened shareholder approach' – essentially a more local or hybridized outcome – as mentioned by Deeg (2005) or Jackson (2003) can also not be ruled out.

3. First empirical indications

3.1 *International Private Equity Investors: An Emerging Transnational Community?*

In recent years, many private equity companies have become international and invested, among other countries, in Germany. This internationalization not only comprises investors from the US and Great Britain but also from many other countries such as: France (Axa Private Equity, Eurazeo), Sweden (EQT), Belgium (Group Bruxelles Lambert), Switzerland (Credit Suisse Private Equity), Dubai (Dubai International), Bahrein (Investcorp), and Germany (Allianz Private Equity, Odewald & Compagnie, Brockhaus Private Equity, and Arques). In this context, the question arises whether the internationalization signals a transnational community in the making. According to Morgan (2001), there are three developments in the internationalisation of business activities that have the potential to form into transnational communities: the development of multinational companies that are not only influenced by their country of origin; the development of international regulatory bodies; and the development of cognitive and normative frameworks, also called ‘ideological’ transnational communities. We argue that there are indications for the emergence of an ‘ideological’ transnational community of international private equity investors. This process is fuelled primarily by the cooperation between actors with different national backgrounds. Since we have not yet conducted interviews in private equity companies, we cannot answer the question to what extent they are truly becoming transnational communities. An international regulatory framework for private equity has not yet been established, even though there are increasing efforts in this direction. In March 2007, trade unions leaders of more than 20 countries gathered in Paris in order to work out suggestions for an international private equity regime. However, this can only be regarded as a first attempt and the chances for success of this initiative remain unclear (Financial Times Deutschland, 16.3.2007). In the following, we focus on the mechanisms contributing to the emergence of an ‘ideological’ transnational community and highlight first signs of a shared identity.

Broadly speaking, three types of interaction between private equity investors can be distinguished. *First*, there are competitive interactions in takeover bids; *second*, companies are traded between private equity companies; and *third*, there are cooperative interactions between private equity companies in the form of joint acquisitions. Companies are often taken over by more than one private equity house as they seek to diversify their risks. In this way, actors in the industry interact and get to know each other. Furthermore, we assume that particularly the third

type of interaction has the potential to transform international private equity investors into a transnational community. For example, focussing on German private equity houses such as Allianz Capital Partners and Odewald & Compagnie, two of the larger German private equity investors, several joint transactions with US-American and British investors have taken place. In 1998, Allianz Capital Partners, the British private equity company APAX, and Lufthansa jointly acquired Tank & Rast – a company operating a network of filling stations, restaurants, hotels and service stations at German motorways – and sold the company to Terra Firma, another UK private equity investor, in 2004. Allianz Capital Partners and Goldman Sachs acquired in 2000 the Messer Griesheim GmbH – a company specialized on industrial gases and formerly owned by the French-German pharmaceutical corporation Aventis – and sold the company to the world leader in industrial gases, Air Liquide in 2004 (see homepage www.allianzcapitalpartners.com). In 2003, the German investment company Odewald & Compagnie and the American investment company Bain Capital acquired the German coating manufacturer Süddekor GmbH, and sold it in 2007 to the German investor Quadriga Capital (see homepage www.ocie.de). Besides, there are not only joint acquisitions but also private equity funds that are jointly set up by German and Anglo-Saxon investors. Such an example is the media corporation Bertelsmann, which was considered until recently a very traditional and conservative German company. Bertelsmann teamed up with the US-American investors Citigroup Private Equity and Morgan Stanley Principal Investments to set up a private equity fund (Financial Times Deutschland, 22.3.2007). While we do not know specifics about any of these interactions between German and Anglo-Saxon investors, there is little doubt that joint acquisitions and funds of German and Anglo-Saxon private equity investors require some shared understanding of how to conduct business. Clearly, these interactions are contributing to the emergence of a transnational space. An open question is, however, if German investors are generally adapting to the investment strategies of Anglo-Saxon private equity houses or if there is a mutual adaptation going on.

Another pointer for the emergence of shared identities are common myths and heroes in the industry. This has become particularly evident in an interview with Dominique Senequier, the chief executive of Axa Private Equity, the largest private equity company in France (Schäfer 2006). The interview revolved around the public criticism of private equity and hedge funds in Germany and France and Michael Milken. The latter popularised junk bonds in the 1980, which facilitated leveraged buy-outs up to 31,3 billion \$, as happened in the case of RJR Nabisco (see above). In 1986, Milken was accused of financial fraud and sentenced to ten years in prison by a

US-court. According to Dominique Senequier, this conviction was purely politically motivated. She blames the establishment of the US economy in the 1980s for his conviction because they rejected the introduction of shareholder principles.

The establishment of the economy of the US did not like the interferences of Milken. They dumped him. The same is happening now in France and Germany, where the establishment of executives and the supervisory boards rail against hedge funds, because they fear for their advantages. In contrast to Milken, they will not succeed in destroying them, since there are 8000 hedge funds worldwide (our translation, cited in Schäfer 2006: 37)

Even though this comment is on hedge funds, Milken's 'invention' of junk bonds as a tool used in leveraged buy outs was particularly important for the private equity industry (see above). In this citation, Milken is portrayed as a hero of the financial community propagating shareholder principles. The establishment of the US economy in the 1980s is portrayed as the villain in this tale. They feared for their perks and send an innocent man to jail. In our perspective, this comment indicates at least some degree shared identity in the financial community, which transcends national boundaries and is not necessarily identical with the interests and ideas of the US business system.

In summary, since manifold relations and interactions exist between private equity investors of different origins – be it in the form of joint transactions or other modes – we assume that a transnational 'ideological' community with a shared identity is in the making. In addition, we expect that a similar educational backgrounds, such as the acquirement of an MBA (master of business administration) or work experience in an investment bank, is also contributing to the emergence of a transnational 'ideological' community. However, we have not analysed the educational background of German private equity investors yet.

3.2 The International Private Equity Sector in Germany

3.2.1 Scale and Scope of the IPES in Germany: Between Locust and Fertilizer

The involvement of the IPES in Germany has been anything but a silent development. In the recent past Germany has seen a heated debate about the economic effects of the IPES involvement. The Social Democrats and the IG Metall (the union that represents workers in industries such as steel and autos) have coined the term 'locust' to describe the IPES activity. Much of the public debate and media coverage has highlighted the negative economic effects of the IPES involvement in Germany (e.g. Rügemer, 2005). The principle concern has been the potentially disastrous effects on firm survival and employment in Germany. This picture stands in

marked contrast to liberal sections of the business press; the IPESs own accounts; as well as studies commissioned by private equity associations, such as the BVK (German Private Equity and Venture Capital Association). These studies are stressing the importance of venture capital and private equity for the German economy (Suhl and Weber, 2005). Private equity is seen to have gone where no other investors dared to and helped German companies to restructure by developing a market for non-core holdings (Business Week, 16/5/2005). Moreover, its crucial role in providing alternative sources of finance for medium-size firms is emphasised in the face of more restrictive and risk averse lending practices by house banks following the Basle II accord (Frommann and Dahmann, 2005). As there is little independent evaluation of the scale, scope and overall effects of the IPES activity on the German business system and its constituting firms we have to rely in a first step on publicly available information from different sections of the press and associations.

The IPES's involvement in the German economy emerged in the late 1990s. Between 2001 and 2004 the value of private equity deals quadrupled. While in 2001 the volume of deals was at 6.78 billion dollars, they were already at 27.7 in 2004 (Business Week, 16/5/2005). According to BVK, BVK members are presently holding a portfolio of about 21.6 billion Euros and are involved in almost 6000 firms. Seen as a homogeneous group the venture capital and private equity financed companies are said to employ around 640000 people and generate a turnover of around 114 billion Euros, which amounts to 5.1% of Germany's GDP (Suhl and Weber, 2005). Against this background, Euroweek interprets the importance of private equity and venture capital firms in Germany as follows:

To put those figures into context, they mean that – indirectly – private equity ranks as the second largest employer in Germany behind the public sector, according to E&Y. It also has a greater economic importance than agriculture, ship-building, mining and steel put together, according to E&Y. (Euroweek, 11/11/2005)

Since 2001 investments in the venture capital and private equity sector in Germany are dominated by leveraged buy-outs. In 2006, 56,1% of the total investments in the sector were leveraged buy-outs¹. Regarding the scope of private equity activity, the BVK reports a continued

¹ http://www.bvk-ev.de/media/file/110.BVK_Jahresstatistik_2006_200207.pdf

rise in small and medium-size investments². Analysts point out that in the past – apart from a few prominent cases – most investments involved conglomerate spin-offs, rather than traditional, organically grown small- and medium-size firms (Euroweek, 11/11/2005). However, while the scope of firms that see IPES involvement cannot be fully assessed at this point, it seems clear that only a limited number of medium-size firms are actually interesting for the IPES (Creditreform Wirtschafts und Konjunkturforschung, 2005). According to the German MittelstandsMonitor (24/3/2005) investments need to have a financial volume of at least 5 million Euros, otherwise the IPES find an engagement not interesting due to high fixed costs for due diligence and company evaluations. Moreover, firms singled out for investments tend to have a value of more than 100 million Euro, are already profitable and have the potential of becoming market leaders, so-called ‘Hidden Champions’, in an industry or market niche (Rügemer, 2005; Frommann and Dahmann, 2005). As only a limited group of medium-size firms is able to attract IPES investments, it is doubtful whether private equity can be seen as a finance alternative for the small- and medium-size companies as a whole. This finding could be rated as a first indication that only a limited number of firms in the German business system are directly impacted by the IPES.

3.2.2 IPES pushing for changes in the German institutional framework and business system

After we have discussed first indications for the scale and scope of IPES involvement in the German business system we investigate how the IPES impact the firms that constitute the German business systems. In principle the IPES can have a direct and indirect effect on the German business system. It can indirectly – together with other pressures – change the German business system and its constituting firms by pushing for changes in the German institutional framework. At the same time, the impact can be more direct by investing in firms of the business system, thereby not only replacing part of the former institutional embeddedness but also pushing for internal strategic and organizational changes. In the following section we will briefly discuss first general evidence about such influences, before we then turn our attention to a mini case study.

²<http://www.bvk-ev.de/bvk.php/cat/75/aid/255/title/BVK+Statistics+on+3rd+Quarter+2006++%96+German+private+equity+and+venture+capital+firms+again+increased+their+investments>

The German institutional context, especially the financial system has undergone substantial changes in the last decade. These changes are strongly related to transnational institution building and rule making at the political and economic levels. At the political level, changes in national legislations and harmonization of national legislation in Europe have changed the institutional context and opened the way for private equity involvement in Germany. At the European level, treaties have been signed regulating the free flow of capital. In this context the Economist states:

Germany has signed up to EU treaties that prescribe the free flow of capital across national borders. Repudiating these is impossible without leaving the EU. The same applies to taxing foreign-exchange transactions or introducing a minimum holding period for an equity investment – both recent suggestions. Hedge funds and private-equity funds have open access for the long or short term. (Economist, 7/5/2005)

Another important change in the German institutional context has been triggered by a tax reform in Germany, in 2000. The reform has made profits from firm sales tax-free and created thereby an incentive for the disentanglement of cross-holdings. Ironically, this reform, which has been introduced by the Social Democrats, has also paved the way for the IPES involvement in Germany.

The second complex of regulatory changes is commonly captured by the catchword Basel II. In simple terms the introduction of Basel II has led to more restrictive and risk averse lending practices by the house banks, the traditional capital sources of small- and –medium size firms in Germany. This accord has created an increasing need and entry point for alternative sources of financing such as the IPES investments.

While the institutional context for firms in the German business system has changed, it would be wrong to suggest that such changes have been driven by a single economic actor such as the IPES. This is not to deny that the private equity sector is lobbying for changes in the Germany's institutional regime. For example, the BVK has formulated a long list of demands for deregulation and changes in legislation for private equity groups and fund raising in Germany (Fromman and Dahmann, 2005). While the Government has followed some of these demands or recommendations through new legislation, other demands remain unfulfilled.

Changes in the nature of firms

Clearly, the changes in the financial system in Germany – as a crucial part of the institutional set up – and the introduction of new actors and sources of finance has the potential to change: the nature of firms; the nature of market relations between firms; and the nature of coordination and

control systems between firms; in short, the business system. Now, what is the evidence for direct changes in the nature of firms and their relations as a result of the IPES involvement? A cursory review of press publications suggests that IPES triggers across the board a much stronger profit orientation in the firms involved. The economist notes, for example:

Such investors tend to focus on generating strong cashflow, and controlling capital expenditure strictly, so that the debt can be serviced. The firm's managers and workers, and their objectives, are constantly under review. Although new for many German firms, with their long lunch-breaks, rest cures and limited working hours, such changes are surely long overdue. (Economist 28/5/2005)

It is true that foreign private-equity funds have been the most active players in restructuring corporate Germany in the past two years. Their methods are often unsentimental, to say the least. Costs and staff can be slashed, equity is quickly turned into high-yield debt, and a positive return is sought sooner rather than later. The effect on a company's culture can be traumatic. Life in the boardroom and on the shop floor (for those who still have a job) is never the same again. Performance targets and personal assessments can radically change the atmosphere. (Economist, 7/5/2005)

While these are more general assessments, it may be warranted to take a close a look at individual cases. We have chosen for a brief analysis the company Grohe. This company suggest itself because it has received a lot of media attention and can be seen as a typical representative of diversified quality production.

The Grohe Case

Grohe is a market leader in the design and production of premium bath faucets and showers, kitchen mixers, thermostats. In June 2005 the company had 5870 employees out of which 4300 were Germany based. In 1999 Grohe was bought by the private equity group BC Partners for 900 million Euros. In 2004 BC partners sold Grohe to the Texas Pacific Group (TPG) and the Credit Suisse First Boston Private Equity (CSFB) group. While the actual purchase price is unclear and varies between 1.5 billion and 1.8 billion Euro, it is suggested that a sale to a strategic buyer or via the stock exchange would have been less attractive. In contrast to BC Partners return on investment expectations of about 5 years, the new owners envisioned a return on invested equity within 18 months (Kamp and Krieger, 2005).

In the process of this acquisition, Grohe was removed from stock exchange. Among the major goals of the first owners was a strategic reorientation of the company focussing on the company's internationalisation. This reorientation was largely successful and shifted foreign sales from 64.3 % in 1999 to above 80% more recently (Kamp and Krieger, 2005). With the new owners Texas Pacific Group (TPG) and the Credit Suisse First Boston Private Equity (CSFB) in the driver's

seat further reorganizations were initiated. Among other things the board of directors was replaced. With the help of McKinsey the reorganisation program 'Fit for the Future' was introduced. The tough program aimed at reducing cost by 2007 annual savings of around 150 million Euros. Major corner stones of the program involved: a reduction of suppliers from 6000 to a maximum of 1500; a substantial reduction of product variety from 18000 to 12000; shifting major parts of production abroad; reduction of sites and employment in Germany; as well as investments into the remaining sites (Kamp and Krieger, 2005). However, it is also noteworthy that the original reorganization plan as proposed by McKinsey involving a comprehensive shift of production to China and the slashing of 3000 has not materialized. Instead only one site in Germany was closed down and 943 jobs were lost. While it is not clear what enabled this milder route of reorganization, there are indications that the works council played a constructive role. Kamp and Krieger (2005) report that the works council commissioned a counter report, prepared by a Dutch consulting firm, which played a role in the negotiation between the management and works council. In a similar vein, the Financial Times Deutschland (6/3/2007) reports that the works council has by and large approved of the reorganization measures and sees on the balance sheet more capital investment than drain.

However, while the reorganization contributed to record sales and profits at Grohe, the financial situation of the firm deteriorated. Among other factors (exchange rates, raw material prices), this deterioration can be attributed to heavy debt that resulted from the replacement of internal with outside capital. Kamp and Krieger (2005) argue that Grohe had to finance its own take over two times. Despite rising turnover and profits the Financial Times Deutschland (6/3/2007) rates the financial risks for the company high as debt has remained high in the face of strong investments.

What can this mini case tell us about changes in the nature of this firm, its relations and above all innovation capacity? Clearly, the case shows that patient capital has been increasingly replaced with more short term oriented 'impatient capital'. This change signals a fundamental shift in the nature of the firm. However, also the company's market relations are changing. On the one hand, these become more international by a focus on foreign sales. On the other, hand domestic relations are changed by substantially reducing the supplier base. It remains an open question if and how this changes the nature of coordination and control between Grohe and its suppliers. While there are not many pointers with regard to the firm's innovative capacity, the capital's

impatience, the reduction of product variety and the outsourcing of production could have adverse affects the company's capacity for incremental innovation. It also has to be noted, however, that the investors proved more patient than initially expected and the German industrial relation system – specifically the works councils – may have a moderating effect on radical investor strategies.

3.2.3 The impact of the German institutional context and business system on IPES

In this final empirical part, we briefly investigate what aspects of German institutional context and business system are possibly modifying the behaviour of the IPES. On the one hand, the German institutional context may limit certain IPES approaches through legal restrictions and other system constraints. At the same time, there can be a more direct influence on IPES strategies based on local firm responses to IPES involvement. So far little systematic evidence has been gathered on the impact of *German institutional context and business system on IPES behaviour*. Nevertheless, there are some indications about potential constraining effects of the political, legal and cultural environment in Germany.

Clearly, the public attention and political debate had its impact on the IPES active in Germany. The political debate has triggered demands and political initiatives for new regulations for IPES activities. A case in point is a Governmental working group that has made suggestion for tighter controls and regulation of Hedge-Funds (Kamp und Krieger, 2005). At the same time, the political debate has created reluctance among the German firms to sell their companies to private equity investors. Such reluctance is suggested by an article in Euroweek:

Others think that Müntefering's comments were sufficiently influential to change some market practitioners' plans. "We know of at least two or three transactions in which either the private equity sponsor withdrew or the vendor decided that it no longer wanted to sell out to private equity as a reaction to the Müntefering outburst," says John Jetter, managing director of JP Morgan's Frankfurt office. (Euroweek, 11/11/2005)

One area of the leveraged loans space that has failed to live up to the expectations of some lenders has been the market for facilities supporting change of ownership among Mittelstand companies. "In 1997 and 1998 a lot of sponsors drew up business plans for Germany based on the expectation that there would be a doubling of deals driven by Mittelstand companies," says Day at Commerzbank. "I remember advising the sponsors then that they were over-estimating the potential for Mittelstand-driven transactions." Others agree, saying that there is still a reluctance among many Mittelstand companies to sell out to private equity investors. "You still meet Mittelstand company owners who know the number of employees on their payroll but not their latest profit figures," says one. (Euroweek 11/11/2005)

Apart from the public and political debate, there are legal constraints for IPES (e.g. Economist, 5/7/2005). Riehmer and Wand (2006) argue that German corporate law is often seen as a constraint to an acquisition of a German DAX or MDAX company by private equity investors

(Riehmer and Wand, 2006). Clearly, a closer look into the legal conditions and changes – at the national and European level – affecting the IPES will be required to gain a deeper understanding about institutional constraints for their activities and strategies.

Next to political and legal constraints, cultural conditions are also mentioned as barriers to the IPES involvement. Thakur-Weigold, head of alternative investments at HSBC, is quoted as saying: "The idea is to incentive management and then sell to another company, but it doesn't work well in Germany. In countries like the UK and to a lesser extent France, management dreams about owning the company for themselves but this is not true in Germany. They are quite happy being part of a big group and even feel slighted if you tell them you will sell them if they do a good job" and continues: "Germany is all about private equity, in that private ownership is still the norm. If you take a list of the 30 biggest listed companies in Germany and a list of the 30-biggest companies then there is only limited overlap. There is a long tradition of buying companies here, but none of selling them again. Selling has been seen as a sign of weakness". (Euromoney, March, 2005).

4. Conclusion

This paper centres on two questions. First, does the internationalization of private equity – examined in the example of Germany – lead to the emergence of a transnational ‘ideological’ community? Second, to what extent do international private equity investors change the business system of Germany; can we discern unchanged divergence, convergence to the Anglo-Saxon business system, or a novel hybrid business system somewhere between a coordinated and a liberal market economy? Even though our findings are very preliminary and extensive case studies and interviews are yet to come, some conclusion can be drawn.

Regarding the first question, there are indications for the emergence of a transnational ‘ideological’ community. International private equity investors, which are also active in Germany, interact with each other in manifold ways. They compete against each other in takeover bids, they trade acquired companies among themselves, and they cooperate in takeovers so as to diversify their risks. In our view, the latter type of interaction has the greatest potential to contribute to an emergence of a transnational community. When German and Anglo-Saxon private equity investors jointly and repeatedly take over companies, we can assume a shared understanding of how to conduct business. What we do not know yet, however, is whether this shared understanding is exclusively based on American business principles or is also influenced

by the original German business principals, such as the importance of long-term relations. The fact that not only public opinion but also many managers and owners of companies are very sceptical of private equity, could lead to a business model, which also includes non-US elements. Regarding the second question, some change of the German business system is clearly identifiable. To begin with, the involvement of private equity investors in the German economy increased rapidly in recent years. Between 2001 and 2004, the value of private equity deals in Germany quadrupled from 6.78 billion \$ to 27.7. The case of Grohe also shows that the takeover of a company by private equity investors does not only include a change of ownership but also far-ranging reorganizations, such as the relocation of production and the termination of many long-standing supplier relations. In addition, private equity investors in Germany are pushing for institutional change in the form of an investor-friendly regulatory environment, although with mixed success. Thus, the scenario of unchanged divergence between the German and the Anglo-Saxon business model seems unlikely. On the other hand, there are also forces working against a growing importance of private equity investors in the German economy. First of all, private equity is still a limited phenomenon in the German economy, since investments are restricted to larger companies and are rather rare in the German Mittelstand. Furthermore, many managers of large German corporations are very sceptical on private equity. If their negative stance towards private equity will eventually dwindle is far from clear. Therefore, we expect the emergence of a new hybrid business system rather than a convergence to the US business system.

Based on these preliminary findings, we suggest that understanding the changes in the German Business system as a result of IPES involvement can be informed by different perspectives on globalisation. Particularly enriching we see concepts that consider the embeddedness of firms in different institutional contexts. We assume that demands from different institutional context will give rise to novel or hybrid organizational forms (Westney, 1993; Boyer, 1998; Djelic and Quack, 2003, Becker-Ritterspach, 2006a/b). In theory terms, our work seeks to contribute to understanding how processes of transnationalization play together with national institutional frameworks. With regard to the question how business systems are impacted by processes of transnationalization we see further development of concepts of institutional duality as particularly promising. In such a perspective certain firms or segments of the business system are simultaneously embedded in transnational communities or fields and national institutional contexts. While seeing processes of transnationalization leading to institutional duality and a

more complex contextual constitution of firms is not a new insight, a possible combination of the explanatory powers of different institutional perspectives may well be (Tempel and Walgenbach, 2006; Geppert et al., 2006). Moreover, suggesting such a new perspective on the institutional embeddedness of firms could serve to overcome simple convergence divergence dichotomies (authors like Ohmae, 1990 on the one hand and Hu, 1992 or Whitley, 1998 on the other). Such a perspective could also help us to redraw the lines of business systems, i.e. business systems that are still institutionally embedded but not solely in one context and not necessarily national on all counts. While some dimensions of organizational forms and practises of firms, or some firms as a whole, may be increasingly embedded in transitional communities or fields, others may remain more firmly embedded in national institutional contexts, and yet others may be stuck right in-between. In our preliminary findings there is some indication for such a segmentation of the business system.

Once again, this paper is only the first step in a research project and presents very preliminary results. The next steps will include the survey of quantitative data so as to evaluate the importance of private equity in the German economy and the conduction of interviews in private equity companies and companies acquired by them. In addition, we seek to develop indicators in order to measure the innovative capabilities of companies taken over by private equity. Besides, we also consider the role of hedge funds in the change of the German business system an interesting field of study, as became evident in the case of the Deutsche Börse AG.

References

- Amable, B., 2003. *The diversity of modern capitalism*. Oxford: Oxford University Press.
- Becker, S. 2001. Einfluss und Grenzen des Shareholder Value. Strategie- und Strukturwandel deutscher Grossunternehmen der chemischen und pharmazeutischen Industrie. Peter Lang, Frankfurt a.M..
- Becker-Ritterspach, F., 2006a. The social constitution of knowledge integration in MNEs: A theoretical framework. *Journal of International Management* 12, pp. 358–377.
- Becker-Ritterspach, F., 2006b. *The Hybridization of Local MNE Production Systems: The Case of Subsidiaries in India*. Ridderkerk, Ridderprint.
- Burrough, B., Helyar, J., 1990. *Barbarians at the gate*. New York: Harper Collins.
- Bygrave, W., Timmons, J., 1992. *Venture Capital at the crossroads*. Boston: Harvard Business School Press.
- Bartlett, C.A., Ghoshal, S., 1998. *Managing across borders: the transnational solution* (2nd ed.). Harvard Business School Press, Boston, MA.
- Boyer, R., 1998. Hybridization and models of production. Geography, history, and theory. In: Boyer, R., Charron, E., Jürgens, U., Tolliday, S. (Eds.), *Between Imitation and Innovation. The Transfer and Hybridization of Productive Models in the International Automobile Industry*, Oxford University Press, Oxford, pp. 23-56.
- Business Week, 16/5/2005. *The Bad Guy? Private Equity*. By: Ewing, Jack, Tiplady, Rachel, Issue 3933.
- Creditreform Wirtschafts und Konjunkturforschung, Autumn 2005. *Wirtschaftslage und Finanzierung im Mittelstand*. Creditreform Wirtschafts- und Konjunkturforschung. Published by Verband der Vereine Creditreform e.V..
- Czarniawska, B., Joerges, B., 1996. Travels of ideas. In: Czarniawska, B., Sevón, G. (Eds.), *Translating Organizational Change*. DeGruyter, Berlin, pp. 13–48.
- Deeg, R., 2005. Path dependency, institutional complementarity, and change in national business systems. In: Morgan, G., Whitley, R., Moen, E. (Eds.), *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, Oxford: Oxford University Press, pp. 21-51.
- Djelic, M-L., 1998. *Exporting the American Model: The Postwar Transformation of European Business*. Oxford University Press, Oxford.
- Djelic, M-L., and Quack, S., 2003. *Globalization and Institutions: Redefining the Rules of the Economic Game*. Edward Elger, Cheltenham, Northampton, 2003.
- Djelic, M-L., Sahlin-Andersson, K., 2006. *Transnational Governance: Institutional Dynamics of Regulation*. Cambridge University Press, Cambridge.
- DiMaggio, P.J., Powell, W.W., 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review* 48, 147-60.

- Economist, 7/5/2005. Locust, pocus. Vol. 375, Issue 8425.
- Economist 28/5/2005. Locust versus locust. Vol. 375, Issue 8428.
- Euromoney, March, 2005. The rise of private equity. Vol. 36, Issue 431.
- Euroweek, 11/11/2005. Private equity locusts set to swarm. By: Moore, Philip, Issue 929.
- Financial Times Deutschland, 6/3/2007. Finanzinvestoren machen Grohe frisch. By: Angela Maier. <http://www.ftd.de/unternehmen/industrie/169547.html>
- Financial Times Deutschland, 22/3/2007. Bertelsmann wird Finanzinvestor. http://www.ftd.de/technik/medien_internet/:Bertelsmann%20Finanzinvestor/176746.html
- Frommann, H. and Dahmann, A., Oktober 2005. Zur Rolle von Private Equity und Venture Capital in der Wirtschaft. Aktualisierte Fassung der im Dezember 2003 erschienenen BVK Untersuchung „Zur volkswirtschaftlichen Bedeutung von Private Equity und Venture Capital“. Published by German Private Equity and Venture Capital Association e. V. (BVK)
- Geppert, M., Matten, D. and Walgenbach, P., 2006. Transnational institution building and the multinational corporation: An emerging field of research. *Human Relations* 59(11), pp.1451-1465.
- Gompers, P., Lerner, J., 2001. The venture capital revolution. *The Journal of Economic Perspectives* 15(2), pp. 145-168.
- Hall, P., Soskice, D., 2001. *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.
- Hall, P., Gingerich, D., 2004. Varieties of capitalism and institutional complementarities in the macroeconomy: an empirical analysis. MPIfG discussion paper 04/05 (Cologne: Max-Planck-Institut für Gesellschaftsforschung).
- Held, D., McGrew, A., Goldblatt, D., Perraton, J., 1999. *Global Transformations: Politics, Economics and Culture*. Polity Press, Cambridge.
- Höpner, M. 2004. *Sozialdemokratie, Gewerkschaften und organisierter Kapitalismus, 1880-2002*. Discussion paper 04/10, Max-Planck-Institut f. Gesellschaftsforschung/Cologne.
- Hu, Y-S., 1991. Global firms are national firms with international operations. *California Management Review*, 34, pp.107-126.
- Jackson, G., 2003. Corporate Governance in Germany and Japan: Liberalization Pressures and Responses During the 1990s'. In Yamamura, K. and Streek, W. (Eds.), *The End of Diversity*. Cornell University Press, Ithaca and London, pp. 261-305.
- Kamp and Krieger, 2005. *Die Aktivitäten von Finanzinvestoren in Deutschland, Hintergründe und Orientierungen*, Hans-Böckler-Stiftung.
- Kostova, T., Roth, K., 2002. Adoption of an Organizational Practice By Subsidiaries Of Multinational Corporations: Institutional and Relational Effects. *Academy of Management Journal* 45, pp. 215-233.

Lane, C., 2005. Institutional transformation and system change: changes in the Corporate Governance of German corporations. In: Morgan, G., Whitley, R., Moen, E. (Eds.), *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, Oxford: Oxford University Press, pp. 78-108.

Leopold, G., Frommann, H., Kühr, T., 2003. *Private Equity – Venture Capital: Eigenkapital für innovative Unternehmer*. München: Vahlen.

Meggison, W., 2004. Toward a global model of venture capital? *Accenture Journal of Applied Corporate Finance*, 16(1), pp. 7-26.

MittelstandsMonitor, 24/3/2005. Den Aufschwung schaffen. Binnenkonjunktur und Wettbewerbsfähigkeit stärken. Jährlicher Bericht zu Konjunktur- und Strukturfragen kleiner und mittlerer Unternehmen. KfW Bankengruppe, Frankfurt am Main.

Morgan, G., 2001. Transnational communities and business systems. *Global Networks* 1(2), pp. 113-130.

Riehmer, K., Wand, P., 2006. Germany is open for private equity. *International Financial Law Review*, 25(5).

Rügemer, W., 2005. US-Firmen: Die Plünderer sind da. *IGM Metall das Monatsmagazin*, Issue 57, pp. 14-17.

Schäfer, D., 2006. Die Wahrheit über die Heuschrecken – Wie Finanzinvestoren die Deutschland AG umbauen, F.A.Z.- Institut für Management-, Markt- und Medieninformation, Frankfurt am Main.

Suhl, W., Weber, T., Oktober 2005. Der Einfluss von Private Equity-Gesellschaften auf die Portfoliounternehmen und die deutsche Wirtschaft. Published by PricewaterhouseCoopers AG in cooperation with German Private Equity and Venture Capital Association e. V. (BVK)

Ohmae, K., 1990. *The borderless world*. Collins, London.

Scott, W.R., 1994. Conceptualizing Organizational Fields. In: Derlien, H-U., Gerhardt U., Scharpf, F.W., (Eds.) *Systemrationalität und Partialinteresse*. Nomos, Baden-Baden, pp. 203-221.

Streeck, W. 1991. On the Institutional Conditions of Diversified Quality Production. In: Matzner, Egon und Wolfgang Streeck (Eds.), *Beyond Keynesianism. The Socio-Economics of Production and Employment*. Edward Elgar, London, pp. 21- 61.

Tempel, A. and Walgenbach, P., 2006. “New Institutionalism” und “European Institutionalism” Verhältnis und Vergleich. In: Senge, K. und Hellmann, K-U. (Eds.), *Einführung in den Neoinstitutionalismus*, VS Verlag, Wiesbaden, pp.185-200.

Westney, D.E., 1993. Institutionalization theory and the multinational corporation. In: Ghoshal S., Westney, D.E. (Eds.), *Organization theory and the multinational corporation*. St. Martins Press, New York.

Whitley, R., 1992. *European Business Systems*. Sage, London.

Whitley, R., 1998. Internationalization and varieties of capitalism: the limited effects of cross-national coordination of economic activities on the nature of business systems. *Review of International Political Economy* 5, 445-481.

Whitley, R., 2000. *Divergent capitalisms. The social structuring and change of business systems.* Oxford: Oxford University Press.

Wright, M., Pruthi, S. and Lockett, A., 2005. International venture capital research: Fromm cross-country comparisons to crossing borders. *International Journal of Management Reviews* 7(3), pp.135-165.