EQT Case Study
An ownership approach to responsible business practices

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October 2018

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Introduction

This case provides an example of an investment firm with a vision to become the most reputable investor and owner in the industry[1]. The case shows how this vision is integrated with responsible business practices in the portfolio companies by taking a long-term, ownership mindset. By leveraging an active ownership approach, sustainability work becomes an integral part of enhancing businesses and making a positive impact in societies where a firm has investments. To provide a deeper understanding of how the ownership mindset and practices interact with management in portfolio companies, the firm's investment in the pest control company, Anticimex, is used as a role model example. [2]

EQT – building a global investment firm in two decades

Conni Jonsson founded EQT in 1994 with Investor AB, the investment company owned by the Wallenberg family. Today, EQT is owned by 55 Partners with Investor AB holding a minority stake. Investor AB is also a sponsor and an anchor investor in all EQT's funds.

As of 2018, EQT has offices in 14 countries on three continents: North America, Europe, and Asia. EQT has approximately 540 employees. The total number of employees at the portfolio companies is over 110,000. However, EQT is more than a traditional private equity firm as it has a broader platform of investment strategies: Private Capital (including Equity, Mid Market, and Ventures), Real Assets (including Infrastructure and Real Estate), Credit (Senior Debt, Direct Lending, and Credit Opportunities), and Public Value.

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[1] This case is written within the framework of a research project that explores the linkages between responsible leadership, sustainable business, innovation, and growth in Swedish-based corporations with a global outreach. The purpose is to capture how ideas about responsible behavior are expressed in daily work and practices. A handful of organizations were invited to take part in a series of round-table discussions focusing on their own challenges and evolved practices. The participants in these discussions were leading professionals, business managers, academics, and policy-makers. For the learning to be disseminated more widely, each session was documented as a case study. The discussions took place between March 2016 and February 2018.

[2] This case is based on round-table seminars, interviews and documentary data. Valuable contributions were made by EQT´s Managing Partner and CEO, the Head of Responsible Investment, the Head of Communications, the Head of Human Resources, a Partner and Investment Advisor representing EQT in Anticimex (among others), and the CEO of Anticimex.

2018 EQT Facts

- EQT seeks investments in sectors and regions where it has the specialist expertise both via the network of Industrial Advisors and the investment advisory teams at EQT Partners
- Focus is on control or co-control investments
- 27 funds raised
- 500 institutional investors
- EUR 50 billion in raised capital

Setting the tone – the most reputable investor and owner

By emphasizing its vision to become the most reputable investor and owner in the industry, EQT positions itself as an investment firm that does not look solely at the financial side of investments. With its heritage from the Wallenberg Group, its vision includes achieving long-term sustainability and making a positive impact on society.[3]

The Wallenberg companies take a long-term perspective with an industrial approach to business development. The companies play an important role in society as far as growth, innovation, employment, and the safety of pension funds. This philosophy has a strong stakeholder view, which means that the Wallenberg Group supports growing business in a responsible way and avoiding mismanagement and bankruptcy. The CEO of EQT clarifies: "you *do not* mismanage companies, *or* put them into bankruptcy, you grow business in a responsible manner."

EQT is today one of the leading firms in the industry as far as responsible investing. By continuously demonstrating that responsible investing is good business, the firm attracts talent (e.g., employees and advisors) and blue-chip investors. At the same time, EQT encourages the portfolio companies to integrate the sustainability practices into their business models.

With its motto, "future-proofing portfolio companies," EQT sets performance standards and leads by example.

Business grounded in a stakeholder view - "building companies together"

EQT's belief that good business is based in a stakeholder view is fundamental to the firm's development. EQT's recognition that a company is embedded in an eco-system, where shareholders are only one – although an important one – stakeholder, is evident

[3] The Wallenberg family, which has a long-term position in Sweden's business community and society at large, is well known for its strong commitment to developing Sweden's core industries (e.g., Atlas Copco, Stora Enso, and SAAB), the financial sector (SEB), and new business ventures in Sweden and abroad.

in the firm's business philosophy and model. Instead of promoting the importance of high positions and power, the firm seeks to build relationships with different stakeholders and to initiate constructive dialogues with them on equal terms. This is usually phrased as the "license to operate."

The "license to operate" concept implies acceptance by investors, owners, employees, unions, the general public, the media, and politicians. The firm's CEO states: "Without our stakeholders' respect, EQT cannot operate."

The stakeholder view has opened many doors for EQT in Europe and the rest of the world. When EQT entered the German market in 1999, the firm could copy and implement its business model overnight. The CEO explains:

> "Germany is a stakeholder society, very similar to Sweden. We were welcomed as a global actor taking responsibility for local business and local society by promoting growth and innovation. Building on the reputation of being a responsible investor and owner, EQT has been allowed to buy companies in Germany that other private equity firms may have had difficulties in acquiring . . . with trust comes responsibility. We are expected to leave good companies behind . . . companies that are better off when EQT sells them than they were at acquisition."

Addressing the importance of a stakeholder view as the foundation for doing business, the CEO states:

> "Banks, for instance, understand and support the long-term stakeholder perspective. In the next financial crisis, and there will be a next, it is essential to have good bank relations. When times get tougher, it will pay to have a reputation for respectful behavior. That is why EQT has lasted so far; we have a more long-term perspective than many competitors. In 2009, EQT bought a company in Denmark. We managed to get financing when others had severe challenges in obtaining capital."

EQT also cultivates good relations with the unions. The CEO clarifies:

> "They understand that if we don't make money, we have nothing to negotiate about. They ask – how do we make money? And we invite them to discuss the various options. For EQT, it is a good thing to have the unions on the boards of the portfolio companies. To some people, this may sound like madness. But it is what a stakeholder society is all about: building companies together."

While embracing this view, some respondents at EQT admit that stakeholder actions sometimes create a strong sense of frustration. It can be a real challenge when stakeholders, such as politicians, criticize the company or the industry, thereby *withholding* the license to operate. The CEO gives an example:

> "Not long ago the prime minister of Sweden stated that EQT is selling children on the stock market[4] and the Minister of Justice argued that profit is theft. Then it is

[4] Referring to the IPO of the education group, AcadeMedia.

> difficult. Still, our message is clear: EQT can't do business without society's approval because the politicians decide our future. They evaluate what we do but should be fair and factual. Otherwise EQT will have no business."

EQT believes that the value it creates in a broader sense (future-proofing companies and future-proofing societies) is not always recognized. The firm also thinks it is sometimes unfairly scrutinized by the press. However, EQT acknowledges that those are the rules of the game and that the media is part of society. The CEO explains: "Complaining does not take us anywhere, but we can still make our voice heard. We do not hide, and we participate in the interviews related to our business when we are asked."

There are times when the EQT team may be somewhat reluctant to do an interview, but as part of EQT's transparency approach, the team recognizes the benefit of interviews to both EQT and to the various stakeholders. Therefore, they agree to interviews. Admittedly, there is always an issue on what to say and how much to reveal. Balance is required. The CEO describes this situation:

> "The journalists might not be satisfied with the answers because we are sometimes unable to reveal all facts. There may be legal or security reasons. However, we do not stick our head in the sand."

To further illustrate EQT's view on stakeholder relations and transparency the CEO repeats what a London reporter told him: "It's so nice to talk to EQT because you tell us what you are up to. Here, in England, private equity firms often answer the phone by stating: 'Don't you know we are private?' And then they hang up."

The CEO states that acknowledging the value of a stakeholder view makes it easier to follow the idea that, in the long run, "the truth will prevail." He adds: "If EQT keeps doing good things, it will show at some stage. We have a strong faith in EQT's business model."

Responsible business builds on transparency

For EQT, the ethic of responsible business is in its DNA. This is part of its inheritance from the Wallenberg ownership tradition. Nevertheless, there are milestones in the firm's history where responsibility and sustainability took on a new meaning. One such milestone was when the CEO and founder, Conni Jonsson, decided that EQT should become more transparent. This was a decision inspired by the Walker Guidelines for Disclosure and Transparency in Private Equity, first established in the UK in 2007. These guidelines state that as the private equity industry in Europe had grown, the impact on society had reached such a magnitude that it was time for the industry to act accordingly – that is, to act responsibly. After Jonsson decided EQT should be more transparent, the firm took the initial steps in what would later be referred to as the EQT transparency journey.

The question of transparency was not intuitive in the industry – or at EQT, for that matter. On the contrary. After all, the "private" in private equity has relevance. For example, "private" implies limited transparency and the freedom to avoid scrutiny in terms of the stock market, public interest, and the media. However, Jonsson stated firmly: “We have nothing to hide.” Between 2008 and 2017, EQT took a number of actions to increases its openness and transparency.

Milestones in the EQT transparency/sustainability journey

2007

- Decision taken to open up, being inspired by the Walker Guidelines for Disclosure and Transparency in Private Equity

2008

- EQT articulates its core values
- EQT publishes its first Annual Review

2009-2010

- EQT establishes its Responsible Investment Policy and dedicates specialist resources
- EQT engages in various industry associations (active member of the Professional Standards Committee and inaugural Chair of the Responsible Investment Roundtable of Invest Europe, previously EVCA)
- EQT is the first Nordic private equity firm to sign UN PRI
- SVCA (industry association in Sweden) establishes a code of conduct for the private equity industry – EQT takes an active part in the preparation

2012

- EQT conducts European stakeholder analysis
- EQT decides to manage future funds on-shore
- EQT AB is established with a board with an industrial profile, in order to have a transparent and easy to follow corporate structure for various stakeholders

2013

- EQT publishes its UN PRI Transparency Report on eqtpartners.com

2014

- Transparency is added as a core value
- New vision is established: to become the most reputable investor and owner

2015

- EQT makes “Five Years Post Exit Study” showcasing how companies owned by EQT continues to grow post exit
- EQT publishes GHG Emissions Report to lead by example

2016

- Launch of EQT Sustainability Blueprint

2017 and onwards

- Implementation of EQT Sustainability Blueprint

While acting responsibly can mean different things in different contexts, transparency benefits many actors in society. Lack of transparency can easily create its own crisis. In 2010, the media attacked the private equity-owned health care provider, Carema, for mistreatment of patients. Carema's owner, who initially misjudged the severity of the media's reports on the situation, did not agree to immediate interviews. This only increased the media's interest in the crisis and led to further speculations. When Carema eventually agreed to interviews, it was too late. Trust in Carema had largely been destroyed. The entire situation negatively affected the Swedish private equity industry as a whole.

The CEO of EQT, who admitted that the Carema crisis damaged the private equity industry, said that if EQT had owned Carema, the outcome would have been quite different. He states:

> "We already had a transparent approach with the media. We might not have agreed on the story the media told, but we would have agreed to the interviews. If everyone is saying that private equity is shit, and EQT makes up 60 % of the market, then we are shit."

A robust governance model combining formal and informal structures

The fundamental business philosophy at EQT is to invest in good companies and to develop them and sell them for more than the original investment. This outcome is accomplished by future–proofing the companies. Using tools such as competence, financial backing, incentive programs, and shared visions, the goal is to create as much value as possible in a defined period of time – usually four to six years.

The portfolio companies are developed following a robust governance and leadership model that builds on the following principles: 1) a clear Nordic governance model, 2) EQT's Industrial Network, 3) the TROIKA forum, and 4) the alignment of interests.

The Nordic governance model provides clear and separate roles for the CEO and management, the Board of Directors, and the owner. The Board of Directors' work defines and monitors strategic plans in the portfolio companies and ensures that management is provided with the necessary support and resources to operate a company in an efficient, responsible, and accountable manner. The Board of Directors also evaluates the CEO. If needed, the management teams are strengthened with new competence.

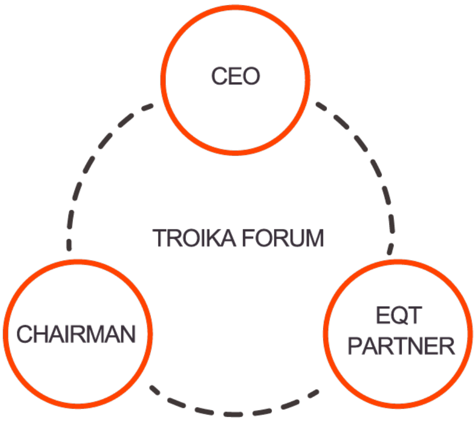
The Industrial Network of some 500 international and independent Industrial Advisors consists of former industrial leaders, successful entrepreneurs. and former politicians. They come from all over the world, from many different industries, and from different age segments. With advisors from the Industrial Network and the EQT Partners, EQT established a "TROIKA" forum for the majority-owned portfolio companies.

The TROIKA consists of three persons: Chairman (generally an independent Industrial Advisor), a Partner from EQT, and the CEO of the portfolio company. The aim of the TROIKA is to be a sparring partner to the CEO and to support him or her in company activities and goals. The ultimate purpose of the TROIKA is to make a positive impact by creating a future-proofed company. The TROIKA is a forum where the CEO, the Chairman, and the EQT Partner have informal conversations about the business. The

CEO learns what the owners and the Board think as they support the CEO in taking appropriate action. The CEO of EQT describes this cooperation:

> "Our goal is to make the CEO a hero so that she or he can outperform. But the CEO also knows that it is understandable to make mistakes because the whole team is behind him or her."

It is also worth noting that the TROIKA, which does not have decision-making authority, is not a substitute for the portfolio company's Board of Directors.



The alignment of interests in the Troika depends on a shared idea of how to build a profitable company that creates value for a broad group of stakeholders. It is important that the owners, the Board of Directors, the CEO, and the management team have a collectively shared vision. This is achieved by inviting the Board and senior management to invest in the portfolio companies. A common mindset and a mutual agenda are also established through a joint business plan and a high level of transparency. The CEO of EQT explains:

> "Communication is crucial. Uncertainty within a company is to a large extent generated by people who do not know what other people are thinking."

Another important success factor, according to the CEO, is to make sure the portfolio companies have the right competence at the right time. With the experience that EQT has from the Industrial Network and the Board of Directors, the firm tends to outperform any headhunter as far as identifying the most valuable employee competence. In order to maintain EQT's competitive edge, the Industrial Network is constantly updated with relevant competence and experience. In recent years, EQT has added tech entrepreneurs and people from start-ups who think differently and complement the more traditional industrial leaders. The CEO states:

> "When we look at investment opportunities, we usually bring in one experienced advisor and one crazy person who wants to find a way to tear the industry apart. It creates a healthy friction where we can stretch our thinking and make sure that the right actions are taken for future-proofing the companies."

Similarly, the TROIKA is continuously evaluated and changed as needed. This used to be a problem in the Swedish industry context because people tended to regard change as professional failure. This situation has now improved. According to the CEO, "We see it as progress to move between jobs. Still, there is sometimes a reluctance to change."

Future–proofing portfolio companies

Future-proofing an EQT portfolio company is about ensuring that the value creation in the invested company has a solid foundation. The CEO describes the business model:

> "EQT may own the company for 4-6 years, but we have to think in terms of 15 years. If EQT takes the right decisions regarding how to develop a company with a long-term perspective, a company with great value will have been created in 4-6 years. There is a difference between a private equity firm focused on turn arounds and short-term efficiency and an owner focused on developing companies to make them strong for the future. EQT prides itself on being the second type. EQT creates value by building companies that provide services and products that will be in demand in the future. Building sound business is the only guarantee for earning good money, for ensuring survival in the long run, and for attracting the most competent people who then work well together."

Attracting the best people

The CEO lists three factors for attracting the best people to the firm: 1) the culture, 2) the opportunity to develop and grow professionally, and 3) the chance to be well compensated . . . in that order. He says: "The culture allows us to attract people without paying the highest salaries because people want to work here."

The CEO and the executive management team emphasize the importance of the company culture to EQT's success. The culture is reflected in the EQT value set. As mentioned above, these values were first formulated in 2008 with the last value, *Transparent*, added in 2014. The CEO states: "The values, the culture, and the business model are linked to our vision to become 'the most reputable investor and owner in the industry'."

EQT's corporate values

- **High performing** (giving people responsibility and freedom to act and base evaluation on performance – there is always room for improvement)
- **Respectful** (acting with integrity and having respect for each other and external stakeholders in everything we do)
- **Entrepreneurial** (being innovative, action-oriented and having a sense of urgency about driving change)
- **Informal** (means being non-hierarchical – everyone is encouraged and expected to speak their mind)
- **Transparent** (means being open and honest, with each other as well as with external stakeholders).

The EQT culture has its roots in the Nordic value system. According to the CEO, "The fact that we have Nordic values opens doors everywhere." He explains that this culture relates to how Nordic leaders view their role and what they consider desirable leadership and management. He gives an example:

> "Historically, compared to other cultures, the Nordic CEO has gone down to the shop floor and talked to everyone. The Nordic CEO even knows the name of the receptionist. Leaders with power in the Nordic countries usually act and behave with great respect for other people. It probably has something to do with the positive side of the Jantelag[5]."

Role modeling the most reputable investor and owner

Ever since the former CEO declared that EQT should be more transparent, the company has worked in parallel ways to apply existing global policies as well as to develop and implement its own models and tools. The process of implementation has involved developing guidance frameworks and tools that support holistic thinking and value-creating sustainability activities within the EQT group.

EQT was inspired by the Walker initiative from 2007 and by the UN-supported Principles for Responsible Investment (PRI) in 2010. These developments led to EQT's decision to formalize and adopt an investment and ownership model of its own that covers responsible investment and ownership practices. The model describes what is expected of EQT as an investor as well as what EQT expects from the portfolio companies. The EQT RI Policy includes factors such as the environment, labor, and human rights and ethics, all of which should be considered when a potential investment

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[5] The law of Jante is a code of conduct said to be common in the Nordic countries, that portrays self-enhancing behavior such as being overtly personal ambitious as inappropriate. Refers to a novel by the Danish author Axel Sandemose.

is evaluated. Once an investment has been made, EQT promotes its high ethical standards and monitors the observance of relevant RI factors.

> *"EQT's mission is to support the development of its portfolio companies to build long term value and generate superior returns for its investors. As a significant owner, EQT believes it also has a responsibility towards society to influence its portfolio companies to act in a socially responsible manner. EQT is convinced that the best interests of its investors are aligned with those of the companies that it owns, their customers, their employees and the communities in which they operate. Therefore, while remaining resolutely commercial, EQT always aims to act in a socially responsible manner. To reflect this EQT has therefore adopted this Responsible Investment Policy*".
>
> (from EQT RI Policy)

The dedicated RI team at EQT guides the firm in its continuous integration of RI policies, including promoting awareness internally. The RI team also supports the EQT Partners' investment advisory teams in their efforts with the portfolio companies on sustainability matters and engages with external stakeholders. The Head of Responsible Investment, in close liaison with the CEO, leads these activities. The Head of Responsible Investment reports directly to the CEO.

The Head of Responsible Investment states: "Our goal was to have all the portfolio companies start thinking about sustainability." She is very clear about the importance of EQT as a role model for the portfolio companies and for the private equity industry. An example of this conviction is stated in the Greenhouse Gas Emission Report 2016:

> "The climate change agenda concerns us all. In recent years, EQT has intensified its engagement through a number of initiatives. Recognizing that it is through the portfolio companies EQT has its greatest impact, the focus has been on addressing environmental aspects by, for example, investing in companies that provide climate solutions, supporting sustainable product/service innovation, and engaging with portfolio companies on non-financial transparency. With its long-term view on investment, EQT can play an important role in the transition to a low-carbon economy. EQT also recognizes that it is critical to lead by example and as such is committed to reducing its own environmental impact. In practice this means that EQT measures its greenhouse (GHG) emissions, strives to reduce them, offsets them, and communicates its activities around them."

Hence, a clear focus on socially responsible behavior, combined with actions that promote transparency, has helped EQT assume the position as a leader in terms of responsible investments. However, setting goals and supporting transparency are only the first steps on the road. The CEO explains:

"Then comes the hard work – systematic measurement, reporting, and follow-ups – and believe me, the employees will continuously question why they have to do all that. The answer is simple: you can't improve anything if you don't know the situation. First, you place the stick in the sand – this is where we are – and then we act and measure improvements. You don't create value by stating that we are not good enough. You only create value when you start making changes."

EQT's sustainability performance framework

In order for the portfolio companies to work in a responsible and sustainable way, EQT has developed models and business-related tools that inspire and stimulate the portfolio companies to act, to measure what they are doing, and to follow-up on these activities.

The sustainability performance framework aims to assess and visualize sustainable practices and societal outcomes in the business models of the portfolio companies. The key is to integrate sustainability in the portfolio companies' business models, strategies, and operations as the next step in achieving a measurable goal.

A straightforward and simple philosophy supports the framework. The Head of Responsible Investment explains this philosophy: "What gets measured, gets done… what gets done well, gets rewarded… what gets rewarded, gets repeated. This is a mindset that has worked very well at EQT for many years."

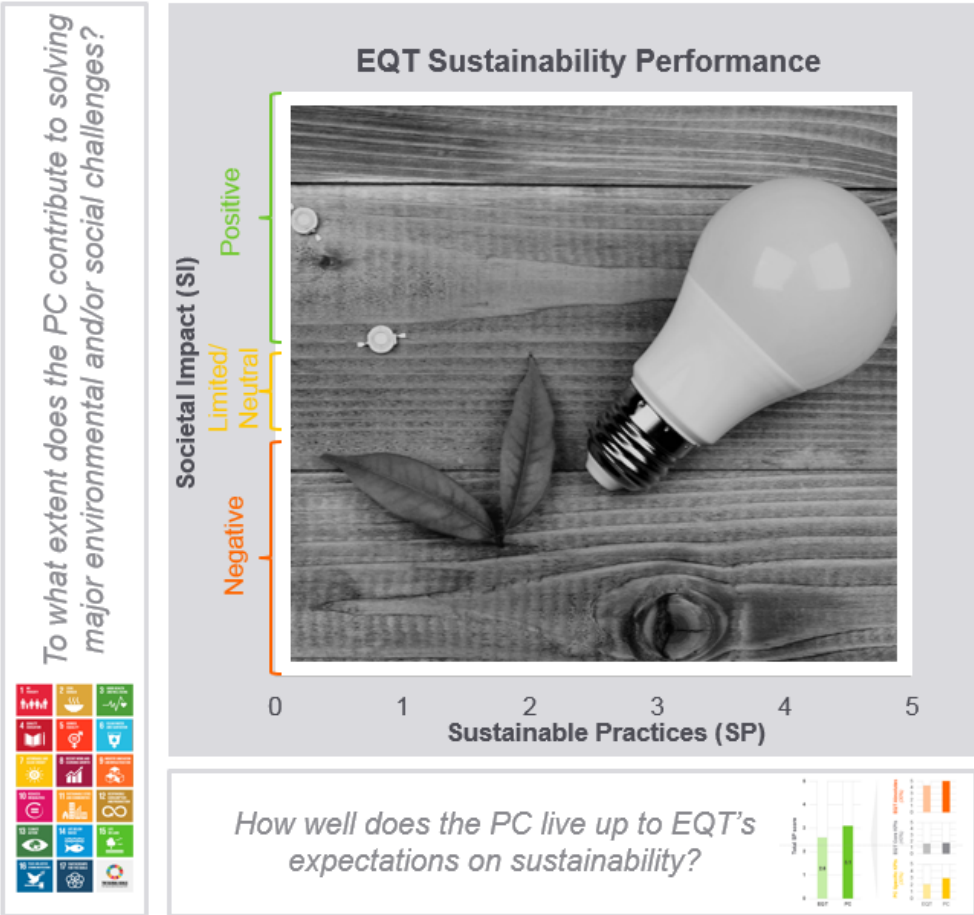
The following four actions are required if the portfolio companies are to build a solid foundation based on responsibility, which is the minimum expectation by EQT:

1) Adhere to the EQT RI Factors/UN Global Compact Principles
2) Adopt a sustainability-related code/policy or similar guidelines
3) Conduct annual strategic board discussions on sustainability related issues
4) Focus on materiality

EQT has deliberately developed these actions so as to appeal to the very quantitative and competitive culture of the investment advisory professionals in the group. There are six core Key Performance Indicators (KPIs) that foster and inspire sustainable and transparent value creation. In addition, every portfolio company is urged to develop company-specific KPIs that capture and manage market and sector specific opportunities and risks.

These four actions aim to promote sustainable business behavior that can be monitored in a relevant way. According to the Head of Responsible Investment, it is the mindset, combined with a systematic approach, that can make a difference, not the individual KPIs. Thus, the overriding message is: "Don't get caught up in details – think holistically and long-term."

The results of the four actions are reported in an annual follow-up model. The model acts both as a whip and as a carrot, according to the Head of Responsible Investment. A simple diagram shows where the company is on its journey and how well it has achieved its goals. The X-axis measures, or "scores", "Sustainable Practices", based on concrete actions and outcomes. The results are shared internally within the firm and with the portfolio companies, creating pressure on the investment advisory teams and the Boards of Directors to explain their results.



The Y-axis estimates the degree to which the portfolio company contributes to solving larger environmental or social challenges in society (the SDG assessment). The latter assessment is still in its infancy, and EQT closely monitors market developments in this area. It is also important that this understanding comes (bottom up) from the portfolio companies.

The evaluations are internally noted, and those who underperform in one year usually try to improve in the next year. The carrot incentive is twofold: it rewards sustainable business as good business; it promotes pride in good work that is to the benefit of the entire firm and its investors.

The Head of Responsible Investment states:

> "There must be a balance as far as how much reporting is required of the portfolio companies. It can't be too theoretical and detailed because then there is a risk of losing the bigger picture and not planning for the unknown."

Another important tool is best practice. The CEO thinks it is essential for the different actors to see what others in the group are accomplishing. He says: "I want them to apply best practice from each other, but often there is an attitude of 'not invented here'. Steal with pride, I say. That is how EQT develops great companies."

Accountability work involves many different actors at different levels in the portfolio companies, but the success rate has a clear correlation with top management. The engagement of the Board members, the Chairman of the Board, and the CEO is vital because they ensure that these topics are continually discussed and evaluated. The Head of Responsible Investment says the work never ends: "You are never done!" adding that having a sustainable approach to business allows EQT to address a changing environment and to constantly look for new opportunities. "You have to stay humble and appreciate that we are all on a continuous journey."

Responsible investment is good business

"There is no contradiction between responsible investment and good business." This mantra is repeated again and again by EQT's top management. The logic behind the statement is simple. The CEO explains:

> "EQT invests in the future. Future-proofing the companies is about creating value for EQT's investors and for future owners. People who buy EQT's companies are not stupid. They turn the company upside down and invest a lot of money to find out everything there is to know about the risks. If EQT leaves risks unattended, that will be reflected in the price. Capitalism can evaluate risk."

The CEO claims that EQT is "long-term greedy", whereas many other companies are "short-term greedy." In order to maintain a sound balance, EQT's RI policy is always taken into consideration when evaluating new investments and opportunities. Maintaining this balance also involves the courage to say 'no' to profits. He states:

> "One of the more striking decisions at EQT was when the former CEO decided to establish future EQT funds in the European Union. That decision cost us 2 billion SEK, an expensive decision, but the right decision."

The CEO admits, however, that there are situations where the investment decisions are less than clear-cut. An example was an investment in a German, coal-investing company that distributes energy. Coal provides 40% of the energy in Germany. The CEO states: "EQT makes sure that this company converted its energy sources from coal to solar and wind. In this case, EQT buys a dirty business and transforms it to clean energy!" This is our idea about future-proofing."

There are also situations when the decision is not to make an investment despite the expectations of profit from the investments. The CEO gives an example:

> "We have situations where EQT could have made a lot of money but chose not to. Some time ago, it was decided not to invest in a company where the business model was to lend money at a very high rate. The target group consisted of single mothers with very little money at the end of the month. It is a target group that tends to pay back its loans. Is it ethical to support that kind of business at an interest rate of 35-40 %? We didn't think so."

Another example was the decision not to invest in certain gambling businesses. The State supports gambling, but EQT decided against this investment. The CEO states: "However, one of EQT's funds does invest in a company that provides technical solutions to the gambling industry. We probably have more gambling data than any other actor in Europe."

The CEO concludes:

> "EQT does not do business when we believe that there are moral reasons not to. There are things that we shouldn't be doing. The activity may not be illegal, but it's just not in accordance with our values and brand promise. Again, there are no clear-cut decisions here. We are here for the long-term while society's norms and values are in constant flux. The most valuable asset is our brand. We have these conversations all the time. There are no black and white answers. In the end, it comes down to our beliefs and our values."

EQT strongly believes that it is important to be consistent when making responsible investments. Therefore, discussions on difficult investments take place in the investment committees. A Partner explains:

> "Sometimes the decisions are based on heated discussions, but most of the time certain investment opportunities do not even reach the committees. The values and the culture help people choose investments in accordance with EQT's belief in what a responsible investment is."

Invest with the trends

A motto at EQT is to "invest with the trends". This motto means EQT should invest in products and services that are likely to be more, rather than less, in demand in the future. Predicting important trends, changing behavior, and future demands requires innovative thinking. The CEO states:

> "If you have the ability to identify trends, you will have a genuine understanding of opportunities and the future solutions, both on a macro level and on a company level."

In other words, investing in sustainable business models, services, and products is about capitalizing on future trends. The CEO stresses:

> "We think a lot about how societies will have to reorganize in order to meet new challenges. And how to do that."

The acquisition of Anticimex is an excellent example of how this vision was put into practice. By digitalizing its internal processes and service offerings. Anticimex has increased its positive influence on the environment, working conditions, and work attitudes. "Invest with the trend" also means making planned investments in the competence of the firm. Making EQT a cloud-based company is one example of a significant investment in the future. In order to stay ahead, EQT has also invested in a firm-wide digital tool called Motherbrain. The CEO explains:

> "We have employed *digitals*, mathematicians, and others who create algorithms to scan the internet. We can actually see what is trending in uploads and downloads. Using this information, we can challenge management in the portfolio companies and help them make better decisions. Using big data is still somewhat controversial internally at EQT, but it is a beautiful example of how to invest with the trend."

Although EQT strives to promote best practices with responsible investments in the industry, EQT does not aim to earn external recognition or sustainability awards. The CEO states: "If we focus on winning every sustainability prize out there, we would not survive – EQT also has to make money." The message from the leadership is that it is more important to execute the actual sustainability work than it is to seek recognition from external parties.

Anticimex – an illustration of innovative future-proofing

Anticimex was originally a Swedish, family business, founded in 1934, that provides pest control services. The company's business model, which is built on service contracts and different types of insurance contracts, produces predictable and recurring revenues. In the early 2000s, ownership of the firm changed several times. Different private equity firms invested briefly in the company but soon sold their interests. During this period, the company expanded its business to Denmark, Finland, Germany, and the Netherlands. In 2012, EQT bought the company for 2.7 billion SEK, and now has a majority ownership position.

Drivers behind the investment

The EQT Partner, who is the responsible investment advisor for the acquisition of Anticimex, explains the logic behind the investment:

> "The pest control industry has the underlying drivers that the EQT funds are looking for in their investments: a growing industry, an industry that is non-cyclical, and an opportunity to consolidate a fragmented industry."

He continues:

> "We live in a globalized world, people travel more, urbanization is densifying cities, and we have global warming. Taken together, these factors lead to increasing pest problems and consequently higher demands for pest control. Since EQT's governance model is based on value creation, we favor looking at investments that are less cyclical. Lastly, the pest control industry was dominated by a number of small family-owned businesses. There was no global leader or front-runner shaping the industry. The opportunity to consolidate an extremely fragmented industry was clearly there. On top of that, Anticimex had very high brand

recognition in Sweden and in the other Nordic countries. While the previous owner had used the strong brand recognition to implement a strategy built on business diversity, the idea now was to focus on the core business and use a digitalized platform to accelerate the cost efficiency of services and to take the lead in a global transformation of the pest control industry."

Setting up the governance structure

Since all investments in EQT have to be approved by an Investment Committee (the funds make the final acquisition decisions), there is a clear procedure for how the decisions are taken and how the governance is set up for a specific investment. The EQT Partner explains:

> "It is always the case that there is someone who has to drive an investment proposal and present it to the Investment Committee. When the investment is approved, that person takes the role of the responsible advisory partner[6] who monitors the development during the EQT fund's ownership period. The value creation plan presented in the Committee guides the actions taken in the specific company and allows EQT to create attractive returns for EQT's clients, the investors. It is the advisory partner who ensures that we have a functioning governance with a competent board and a management team in place in the company that can realize and deliver on the plan."

When the business proposal is presented to the Investment Committee, typically a chairman, who has already been identified, is someone who has taken an active role in developing the value creation plan and in deciding on the composition of the new board. For Anticimex, the chairmanship was offered to a longstanding Industrial Advisor to EQT who had successfully served on several portfolio company boards previously. The responsible EQT Partner, who is always represented on the board, serves with four new board members. Each board member is carefully selected to support the company in realizing the value creation plan. As a whole, the new board members have competence and experience acquired in the global service industry, in insurance contracts, in digitalization processes, or in the food and beverage industry. Finally, a new CEO is recruited. At Anticimex, this individual was a well-known and reputable entrepreneurial person with a background in IT.

Realizing the value creation plan

At the time of the investment, 75% of Anticimex's annual turnover was in Sweden. Only 50% of the business was pest control. Basically, the company was a Swedish conglomerate with 1.7 billion SEK in annual sales.

The key strategic decisions taken by the new Anticimex board and management were the following: to focus on the core business, to grow through acquisitions, to digitalize the services, and to lead using a decentralized control model. The most critical decision was to digitalize the pest control services, which was unheard of in the industry at that time. However, the decision produced many benefits. In addition to being cost efficient, the digitalization was more environmentally friendly and thus more sustainable.

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[6] Responsible advisory partner refers to the EQT Partner/Investment Advisor

By introducing a mechanical trap, a product called SMART, with digital sensors, Anticimex could, for instance, optimize the positioning of the rat exterminators. This trap reduced both the carbon footprint in checking the traps and the use of poison that would sooner or later contaminate drinking water.

The EQT Partner explained the rationale for the digitalization of services as follows:

"Exterminating rats digitally instead of using poison has many benefits: the safety of drinking water is secured, pests can be monitored, and the positions of the traps can be optimized. It is cost efficient and sustainable."

By 2015, three years after the acquisition by EQT, Anticimex had doubled its annual turnover to 4 billion SEK and had increased its profit margin from 10% to 14 %. It was time to reassess the investment. The EQT Partner explains:

> "We realized that Anticimex had achieved the targets set in the value creation plan and was ready for the next step. The company still had a lot of growth potential, but in order to initiate a second phase, we needed to attract new competence. We got in touch with our prime candidate (at that time, the CEO of Loomis, a global cash delivery business with an annual turnover of 17 billion SEK). Apart from running a global business, this individual had several years' work experience in North America."

Commenting on the recruitment of the new CEO, the EQT Partner emphasizes the role of the governance model:

> "The incentive program is an important part of attracting the right people, but it is also about how we work together with the companies. EQT has a clear governance model. We want strong and entrepreneurial CEOs who can drive the business and are supported by the owners and the Board. EQT offers interesting challenges and a collegial work environment."

The new CEO confirms that EQT is a strong international player with the resources necessary to make large investments. He describes EQT´s ownership as clear and their agenda as straightforward. He states: "EQT's agenda is very simple. It's about digitalization, sustainability, and continuous improvement."

The new CEO also emphasizes the importance of EQT's strong sustainability profile. He states:

> "EQT was very early in expressing its belief in sustainability as a driver for good business. At first, I asked myself if this was merely "hot air" or if the company truly believed in it. Now, I feel that it is not possible to make solid investments without taking a sustainability perspective."

As for the governance model, the TROIKA adds a novel dimension. As explained above, TROIKA is a forum where the CEO meets with the Chairman of the Board and the EQT Partner/Investment Advisor in consistent and continuous dialogues on strategies and investments. Only limited investments can be decided by TROIKA because the full decision power rests with the Board. The Anticimex CEO explains the benefits of the TROIKA as a separate forum:

> “As a CEO, I don’t want to put in a lot of work and then come to the Board to be evaluated. I want to feel that what I do is in line with the views of the Board and the owners. Then the TROIKA provides an informal forum where I have the chance to have informal talks on a regular basis.”

Sustainability integrated in the business model

According to the CEO of Anticimex and the EQT Partner, sustainability is already integrated with the Anticimex business model. The digitalization of the services has had immediate positive effects on the environment, working conditions, attitudes to work, etc. The Anticimex CEO explains:

> “Making people see the benefits right away makes a big difference. If you replace all light bulbs with LED or re-cycle them at the local office, you can see a difference and you know that it is important. With the SMART concept, you can see the effects on sustainability directly. If you, as a technician, have worked with toxins for years and switch to SMART, you will receive instant feedback from the customer. You will also see in your mileage journal that you drive half as much as you did previously. You also have an identity change. The technician consults with the customer in solving problems in a completely different way and receives a completely different feedback. We tick all the boxes for sustainability!”

The Anticimex SMART concept is a major part of the digitalization of services. Other important parts are digitalization of work practices and the creation of a web site to support the sales activity.

The Anticimex CEO describes the work process:

> “We´ve done most of the hardware work on SMART in collaboration with the producers of the traps. But the digital gang at EQT has taken us light years forward digitally when it comes to the sales processes on the web.”

The EQT Partner concludes that there was never a conflict between being profitable and being sustainable at Anticimex. He states:

> “Anticimex is a great example of a company that does not make compromises. The company’s motto is “to be the modern pest control company”. That is the vision. The way to achieve that vision is to be the digital leader in the industry and to deliver sustainable services to the customers.”

Under the ownership of EQT, Anticimex’s business continues to expand geographically, and today the company operates in 17 countries in Europe, the Asia-Pacific and the United States. In 2018, Anticimex is expected to serve more than three million customers. Its annual turnover is expected to exceed 6 billion SEK.

Anticimex is currently valued to 22 billion SEK. The value was 2.7 billion SEK when EQT acquired the company. Since EQT became the majority owner, Anticimex has completed more than 100 add-on acquisitions.

Anticimex is a remarkable example of how responsible investment in digitalization can provide innovative and sustainable services. By bringing Google expertise and people into the pest control business, Anticimex has revolutionized the industry. It is now the third largest pest control company in the world. The EQT Partner states: "All this has happened in five years. This is something we can be really proud of."

Challenges

> *"I see no limits to how much we can grow – the real challenge ahead is to sustain EQT's culture of responsible ownership at the same time as we grow, and to keep developing our networks to be relevant for future investments."(CEO of EQT)*

The CEO has a clear picture of how he wants to develop the company, both in terms of who and of how. The "who" relates to the networks and the future promoters of the company culture. The "how" relates to the need to change the ways of working in order to become quicker and more flexible. These aspects, which are interconnected, are part of the major challenge that EQT faces as it strives to be the industry´s most reputable investor and owner. This effort requires promoting a strong culture based on supporting responsible leadership, nurturing diversity, and implementing a mindset characterized by "systematic agility."

Nurturing the culture

The CEO and the executive management team repeatedly stress the importance of the corporate culture to a successful organization. There is also a strong belief that EQT has a shared and rather homogenous perception of its company values, which is vital in a decentralized organization with operations in 14 countries. They think that decisions must be based on a common understanding of the company vision and a common sharing of the company values.

The company has made a significant effort to capture and formalize its essential values. Employees, who are instructed in these values, are evaluated annually. In these evaluations, the individual's ability to live by the values is discussed. The CEO spends a lot of his time in discussions and conversations about EQT's values, in particular in relation to the company's deals and actions. As EQT grows, the CEO expects to spend even more time nurturing the culture, and as he puts it: he must "train the trainers." Such training is a powerful way to socialize the work force.

A strong company culture is needed to fulfill the vision of becoming the most reputable investor and owner in the industry. Not living the culture threatens EQT's long-term survival. The fact that most people have some flaws as far as values commitment does not mean that they cannot improve. The CEO thinks the most dangerous people in an organization are the people who achieve great results but lack the right values. He states:

> "This kind of situation has occurred a few times when we recruited people with a background in other settings. It can be difficult to change. It doesn't take long to discover such people. After some discussion with them, we usually reach a common understanding. Then they leave voluntarily."

Maintaining and growing a culture is a constant challenge. The strategy is to recruit or promote people who are able to work with others. These people are good role models. According to the CEO, EQT attracts very talented people because of its strong company brand. However, for several years EQT has struggled to attract female top talent.

Nurturing gender diversity

The EQT culture stems from the early 1990s when the company was founded by Conni Jonsson. The small company had an initial team of four men and only one office in Stockholm. Everyone worked in the same room. Although this all-male culture has changed over the years, there are still far more male employees than female employees. Of the 55 Partners, only two are women. However, EQT's HR director, who is the only woman on the EQT Executive Committee, claims the culture is not male dominant. At the corporate level, there are four women in high positions who report to the executive management group. These women work with legal, finance, communication, and sustainability matters. At the associate level, the number of women is steadily increasing. Nevertheless, the CEO admits the male-female employee ratio is a problem. EQT should make a stronger effort to attract and retain more women employees.

Recently, there has been an effort to understand this problem. The company has studied and evaluated relevant internal routines and recruitment processes. For example, the CEO describes the reaction a woman candidate had to the internal processes for recruitment and talent evaluation. She found the experience offensive. She stated:

> "You give me a case to solve. Then, after four hours, four men on the other side of the table try every way to crush me. It is intimidating. I would never want to work here."

The CEO affirms her feelings:

> "Intimidation of employee candidates is really not an intelligent way to assess their ability. But, in our defense, we were unaware of the reactions to this assessment method. We thought we were using common assessment methods."

Another learning moment appeared in an executive management group meeting. One person on the management team argued that EQT should abandon its efforts to recruit women employees: "Why bother even trying? It seems impossible to attract women to EQT anyway." The response from another member of the management team was sharp and distinct: "If we don't try to attract the best women, we aren't going to get the best men either. No one wants to work for a firm with only middle-aged men." The CEO concludes:

> “Nurturing gender diversity is the only way to secure EQT’s ability to attract the best talent today and in the future. It is a question of survival – you do not become the most reputable investor and owner in the industry by having a bunch of alpha males chuckling in the corridors – I know that for sure.”

How can EQT make a difference in this area of gender diversity? The answer is to be aware of the problem and to continue the search for new ways to make changes. When an organization is made aware of its unconscious gender bias, it may replace assessment methods that favor male performance and male working habits with methods that challenge cultural behaviors that are inherently discriminatory. The CEO states:

> “The strategy is to support women and encourage their success. They will then draw on their own networks and attract other women. When we achieve a critical mass of women employees, we can show them that they can have a career at EQT. At that point, we will have made a break-through.“

Speed of iteration beats quality of iteration

Even with the best people and the most promising talent on board, EQT faces the challenge of maintaining its leadership position. In a world that is constantly changing, at faster and faster speeds, the company must be quick and flexible in its responses. The decision to make EQT a cloud-based company was one such response to this challenge. The decision, which had significant consequences for organizational routines and procedures, created internal friction and stress among the employees. The CEO, however, insisted on the change by arguing that EQT had to become “systematically agile”. He thought, speedy, decisive action was of vital importance. He states: “I have some wonderful people here who tell me that speed of iteration beats quality of iteration.“

Systematic agility is about being flexible and quick to adapt, and, at the same time, taking a long-term perspective. The uncertainty about the market in the next couple of years does not mean that decisions should be based on short-term evaluations rather than on systematic evaluations that lead to systematic change. The ability to act with systematic agility is essential for investment and portfolio companies. The CEO states:

> “We have to give the necessary tools to the decision-maker. We also need to make sure that we have an information system that works, that can collect all relevant information, and that allows us to monitor trends and innovations and to act on them. This is difficult, but it is how I want EQT to operate.”

The CEO concludes, referring to the company mindset and activities:

> “A stale organization will die. When the production cycles shrink, there is simply no time to elaborate on alternative scenarios and to think hard about the next step. The response must be rapid. This change of mindset is challenging to many people in the company and in the Industrial Network. But if we succeed in making corporate EQT and the portfolio companies more systematically agile, then we can protect these companies by making them future-proof.”

Appendix

Themes and questions for discussion

The EQT case illustrates the interplay between a strong vision and the systematic work needed to develop a holistic view of business models, processes, and tools when implementing a sustainable mindset and behavior. It is a sustainable strategy implemented through hard work, patience, and bold decision-making. EQT's diversified platforms provide an opportunity to leverage sustainability knowledge among sectors and strategies. Nevertheless, the sustainability journey described in this case had many challenges of different kinds. To further develop ideas on sustainable behavior, innovation, and the role of responsible leadership, some central themes and questions are highlighted below.

Role-modelling the industry

EQT's executive management group clearly understands the importance of acting as a role model. While their bold vision is one example of that understanding, the vision statement as such is the result of a series of separate although interconnected actions. Or differently put, the vision is an important milestone on a transparency and sustainability journey that cements and showcases the firm's ambition to be a trusted partner and a good corporate citizen.

What are the stakes for choosing the vision of becoming the "most reputable investor and owner"? What are the pros and cons? EQT was an early adopter of transparency as a strategy for developing and applying responsible investment policies. How can EQT maintain this leading position when almost everyone in the industry claims to have some manner of sustainability agenda?

The stakeholder view

EQT´s business model is based on a stakeholder view, which means that the firm sees itself as part of an eco-system with a broad range of stakeholders that includes politicians, local authorities, and the media. Building relations is part of EQT's DNA that it inherited from the Wallenberg Group. As a global investment firm, EQT's stakeholder view poses several interesting questions: Who are the main stakeholders? How does the EQT approach differentiate among stakeholders? Is the stakeholder view fundamental to EQT's competitiveness in all markets? If not, how are the cultural differences dealt with?

Balancing responsible investments and business opportunities

The EQT culture mirrors a Nordic value system that is not always associated with the business ethic and management practice of a "regular" private equity firm. One aspect of this culture involves inspirational, constructive, and sometimes challenging discussions on the real meaning of responsible investment in practice. Another aspect involves striking a balance between responsible investment and business opportunities. How does the EQT executive management group convince its partners to agree to its vision of sustainability and transparency? Who has the power to refuse good business opportunities if they do not align with corporate values?

EQT's governance model combines formal and informal structures, which creates several arenas for strategic discussions and sharing of experiences. Friction is considered a tool that leads to better decisions rather than a hindrance to the implementation of new ideas. For EQT's top management, this means balancing opinions and dealing with different attitudes towards transparency and sustainability, both internally and externally. Which arenas and tools are most important from an owner perspective? How is the resulting friction dealt with?

Digitalization and systematic agility

Business development is a continuous state of mind in which the progress of operations is embedded in new technologies. In such a world, innovation increases the potential for changing behavior in the market and provides the power to monitor change by making use of big data. Digitalization has become a means to innovate traditional business operations. When combined with responsible investments, digitalization is a powerful force in making businesses future-proof (cf. Anticimex). What are the main challenges when digital expertise is centralized at the corporate level in an investment firm?

Digitalization, which is also part of EQT's internal organizational change, is an enhanced tool for supporting and evaluating strategies in the portfolio companies. By adding digital and mathematic competences at the corporate level, EQT strengthens its position as a leader in future-proofing companies. By cultivating the idea of systematic agility, EQT also adds flexibility and an adaptable capability to their investment strategies. How can systematic agility become a driving force for sustainable business?

The interplay between culture and structure

EQT stresses the importance of a strong culture in which values must interplay with structure. Which structural tools are the most important for supporting EQT's cultural values?

While culture can be seen as a governance tool, culture and behavior can also be understood as continuous translation of values – where does the translation occur and by whom? How do the EQT culture and values apply in the case of Anticimex?

Gender diversity is essential when the vision is to become the most reputable investor and owner in the industry, according to EQT's executive management group. Nevertheless, there seem to be some resistance to this goal. What is the likely time-frame for making real progress? What can be learned from other organizations?