

Corporate Financial Strategies for Global Competitiveness

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This paper focuses on the role of corporate financial strategies to improve their market valuations and lower their cost of capital. The identification of successful strategies is accomplished within an overall strategic framework. The paper is built on 12 longitudinal case studies from the Nordic countries to illustrate the linkages between business strategy, firm motivation, and various financial strategies. © 2001 Elsevier Science Ltd. All rights reserved.

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Introduction

During the last two decades the small Nordic economies have been able to foster a remarkable number of high-growth capital intensive companies, such as Nokia from Finland, Ericsson from Sweden, Novo-Nordisk from Denmark, and Nycomed from Norway. We argue that without the skilful global financial strategies that enabled these companies to access global savings, the limited domestic availability and high cost of capital would have hampered their growth. We suggest that these company stories provide valuable insight for scholars as well as for European executives, in particular those of smaller and medium-sized growth-oriented firms.

In order to succeed in a global financial market, firms' 'executives must be capable of delivering the strategy story to the stock analysts and, ultimately, share value to the money managers', Useem (1998, p. 43). The on-going globalization of equity markets provides the firm with the opportunity to actively reduce information and agency costs, and hence to contribute to higher firm values and lower cost of

capital (Bekaert and Harvey, 2000; Stulz 1999, 1996). The rise of global portfolio investment has laid the ground for more emphasis on shareholder relations. The international portfolio managers judge the potential company to invest in against the best-performing firms in each industry and no longer against its domestic peers only. For small- and medium-sized companies in particular, but also for large companies outside the Anglo-American world, and major countries like Japan and Germany, the gain of access to highly liquid capital markets can effectively boost growth. In the rest of this paper we will emphasize successful financial strategies for large companies from small and/or emerging economies for gaining global investor recognition. The brief story of Hafslund Nycomed and Nokia may serve as appetizers.

In 1992, Hafslund Nycomed (now Nycomed Amersham), a Norwegian pharmaceutical company, simultaneously listed on the New York Stock Exchange (NYSE) and made a US\$ 74.7 million US equity issue. At the time of the issue the company represented as much as 11 per cent of the value of all shares on the Oslo Stock Exchange. The NYSE listing provided Hafslund Nycomed with enhanced visibility within the pharmaceutical industry and cultivated a reputation with US institutional investors. Also in 1992, the financial strategy of Hafslund Nycomed paved the way for a US\$ 400 million acquisition of its major US rival Sterling Winthrops. The interplay between the corporate strategy and the financial strategy was paramount to the firm's global success.

When the fast growing telecommunication company Nokia of Finland needed US\$ 485 million in 1994, access to competitively priced funds was necessary in order to keep pace with competitors. In early 1994

the common stocks of Nokia's major competitors were priced at 22 (Motorola) and 25 (Ericsson) times earnings, however, Nokia was down at only 14 times earnings. To become more attractive to global investors, the firm listed on the NYSE (New York Stock Exchange) and made a Euro-equity offering. Within three months of NYSE trading Nokia's stock had gained 45 per cent versus a 2 per cent gain for the NYSE composite index. Nokia had achieved global recognition among investors, and was now classified and priced as one of the peers in the telecommunication industry.

Historically there has been considerable theoretical and empirical research on the segmentation of international capital markets, as well as recent studies such as those done by Karolyi (1998), Modén and Oxelheim (1997) and Sundaram and Logue (1996). However, few studies have addressed the specific *managerial* challenges that internationalization of capital implies. The research issue of this paper is to focus on the way individual companies can undertake actions to improve their market valuations, and thus their cost of capital. The key ingredients are the linkages between business strategy, firm motivation, and various financial strategies to reduce the corporate cost of capital.

Why Financial Strategy Matters

There is a widespread misconception that financial strategy does not add value to the firm. This line of reasoning goes back to the research of two Nobel prize economists, Modigliani and Miller. In the best-selling book *The Business of Economics* (1997), a UK professor John Kay argues that finance is basically irrelevant to corporate success. However, this argument ignores the facts that all capital markets are not alike and information is not evenly distributed across nations. Even for highly liquid and well functioning capital markets, such as the one in the United States, a study of 750 companies reveals that better disclosure boosts stock price (Lang and Lundholm, 1996). If there is no value creation in pursuing specific financial strategies, then companies ought to lay off their highly paid investor relations executives to enhance their stock price. On the contrary, we suggest that companies from small and/or highly regulated capital markets are more dependent on investor relations than their peers in other markets in order to escape a mispriced and/or illiquid domestic stock market. The need for an active investor relations function is also shown by the fact that global investors strongly favor more visible (and larger) firms when investing in small equity markets (Dahlquist and Robertsson, 2001).

Barriers to an International Cost of Capital

We argue that corporate competitiveness is enhanced when a firm's dependence on an illiquid or partially segmented capital market is reduced. Financial market segmentation implies that a firm from one country faces higher financial costs than an exact similar company from another country. The main ingredient to internationalize the cost of capital is to list a company's shares on one or more foreign stock exchanges and/or float equity issues to investors in one or more foreign countries. The listing enhances liquidity of shares, and an issue is necessary to provide the availability of capital. A third approach to internationalizing the cost of capital can be made by strategic alliance. Foreign industrial investors can overcome a segmented capital market by infusing equity into a target partner.

In the 1980s and the beginning of the 1990s one major venue for companies to escape a 'thin', inefficient and heavily regulated domestic market was to place an equity issue on a foreign 'prestigious' capital market. Oxelheim (1996) argues that the internationalization of the cost of capital should be seen as a process with three stakeholders: investors, regulators, and managers. Investors are characterized by an endless search for new profit opportunities and portfolio risk reduction. On the other hand regulators pursue policies that are aimed at insulating the domestic market from the global one, and managers strive to eliminate disadvantages by trying to circumvent barriers and restrictions imposed by regulators. A successful stock issue should render the company benefits from a higher price/earnings ratio (P/E), or price to book ratio, abroad as compared to the one at home. This paper looks at the strategies that individual companies pursue in order to reduce their cost of capital.

Corporate managers of firms resident in segmented equity markets have had to devise strategies to overcome the root causes of capital market segmentation. These causes are as follows:

- ❖ Asymmetric information available to investors resident in different countries. This includes not only financial data on corporations but also the analytic methods used to evaluate the validity of a security's price.
- ❖ Different tax regulations, especially with regard to the treatment of capital gains and the double taxation of dividends.
- ❖ Regulation of securities markets.
- ❖ Alternative sets of optimal portfolios from the perspective of investors resident in one equity market compared to investors resident in other equity markets.
- ❖ Different agency costs for firms located in bank-dominated markets compared to firms located in the Anglo-American markets.

- ❖ Different levels of financial risk tolerance, such as debt ratios, in different countries.
- ❖ Differences in perceived foreign exchange risk, especially with respect to operating and transaction exposures.
- ❖ Takeover defenses that differ widely between the Anglo-American markets, characterized by one-share-one vote norms, and other markets featuring dual classes of stock and other takeover barriers.
- ❖ The level of transaction costs involved in purchasing, selling, and trading securities.
- ❖ Political risk such as unpredictable government interference in capital markets and arbitrary changes in rules.

The relative importance of each of these barriers has changed over time and across countries. Here we use Nordic cases to illustrate the variety of corporate strategies employed to internationalize firms' cost of capital, as they evolved over time and across countries (Oxelheim *et al.*, 1998).

Most studies on the effect of listings, or equity issues, have used short-term abnormal return methodology. Other studies have measured the impact directly by using changes in key operational ratios, such as price-to-book value. A third approach, used in this paper, is to make in-depth case studies of the internationalization of capital as it affects managerial processes and long-term performance of firms.

Twelve Nordic Longitudinal Cases

This article utilizes a database composed of 33 Nordic firms that successfully floated equity issues abroad during the 1981–1994 period. Out of these 33 firms, this study addresses 12 longitudinal case studies consisting of the three largest foreign equity infusions in Denmark, Sweden, Finland and Norway in that period (summarized in Table 1). In order to analyze the long-term effect of corporate financial strategy we are constrained to use 'old' cases. The focus is on the corporate histories of these companies after most stock market restrictions on foreign ownership were eliminated in 1986. The pre-1986 cases show the effects of significant domestic capital market restrictions, and these cases are applicable to the present capital market conditions of a number of smaller and/or emerging markets.

To produce a convincing empirical grounding for this study, we have analyzed the cases with both secondary information (annual reports, etc.), interviews with key personnel (such as President or Chair), and interviews with third party informants (such as bankers, stock analysts or competitors). We used a combination of 'soft' and 'hard' information to analyze the cases, and combined the usage of stock market reactions, changes in key financial ratios (such as price-

to-book), and subjective evaluations from key informants.

Corporate Motivation

Table 1 shows the corporate motivation for the significant equity infusions that the Nordic companies achieved during 1981–1994. For most firms the major motivating factors were both internal, such as a need for financing of foreign expansion, and external, such as long-term marketing towards customers, suppliers, and potential partners. In the Swedish financial market Modén and Oxelheim (1997) looked at 24 foreign equity issues between 1983 and 1993. They identified six arguments for undertaking a foreign equity issue. They were: (1) marketing of the firm in order to boost the firm's reputation with customer, supplier or potential merger or acquisition partners, (2) to circumvent limited domestic equity supply, (3) higher share prices abroad, (4) to get around domestic legal restrictions, (5) to benefit from diversification, (6) or to satisfy foreign demand for shares. Among the Swedish issues the marketing argument was the most important and the limited domestic supply of equity the second most important. It is also interesting to note that in 15 of the 24 cases the equity issue was caused by an imminent funding need, most commonly related to a foreign direct investment activity. The theoretical linkage between cost of capital and foreign direct investment is further discussed by Oxelheim *et al.* (2001).

Danish Cases

Our oldest case study goes back to 1978, at a time when the Nordic financial markets were very inactive and small, similar to the present situation in some of the smaller Eastern European equity markets. Novo Industri A/S was driven by a need to escape a segmented and illiquid Danish capital market. The immediate action was to issue a convertible Euro-bond in 1978 and make a listing on the London Stock Exchange. The 1981 equity issue in the US was motivated by a desire to increase the liquidity of the Novo shares. Another motivating factor was to provide access to research funding on par with its global competitors. The underwriting syndicate led by Goldman, Sachs and Company, required Novo to list on NASDAQ and subsequently on the NYSE to help market the issue and meet the dispersion of ownership requirement of the NYSE. In 1990 Bang and Olufsen's equity infusion was motivated by a need to access competitively priced funds, as well as the potential synergy from the strategic alliance with Philips NV of The Netherlands. In 1994, Tele Danmark had to make use of the Euro-equity market in order to distribute its mammoth privatization issue. The small Danish capital market was naturally not capable of absorbing the US\$ 2.96 billion issue without

Table 1 Major Foreign Equity Infusions in Nordic Firms: 1981–1994^a

Company and (country)	Corporate motivation	Business strategy	Financial strategy: route to internationalizing the cost of capital	Performance
Tele Danmark A/S, Privatization in April 1994 (Denmark)	Fund future growth opportunities and government privatization	A domestic low-growth telecommunication company with moderate potential for firm-specific advantages.	Euro-equity issue of US\$ 2.96 billion and cross-listing on the New York Exchange and quoted on SEAQ International in London.	Share price developed along the lines of the domestic stock market, not in line with the S&P 500 industry index.
Bang & Olufsen's strategic alliance with Philips NV in June 1990 (Denmark)	Capture operational as well as financial synergy necessary for a small firm with large size competitors. Immediate funding needs.	A niche oriented consumer electronics firm with moderate-growth and a premium brand-name (highly differentiable)	Philips NV invested DKK 342 million in an equity issue that gave Philips 25 per cent of the equity in B&O.	B&O was able to raise capital from Philips at a 35 per cent premium, and the stock traded increased 35 per cent within two days after the announcement. The operational synergies materialized in 1993. B&O repurchased Philips' shares in 1997 but the alliance was continued.
Novo, an international directed issues in 1978 and 1981 (Denmark)	Fund future growth at an acceptable cost of capital in order to be competitive in relation to foreign companies.	A high growth biotech company with unique patent-protected products	Floating of a convertible bond issue, listing in London, and public stock issue in the US and subsequent listing in the US	The reaction to the initial internationalization was positive (London). The US issue further boosted stock price.
Amer, an international equity issue in 1984, a private international placement in 1986, and an Euroequity issue in 1989 (Finland)	The illiquidity of the domestic stock market, and a desire to grow through acquisitions. No immediate funding need.	A mostly domestic low-growth diversified company that used an acquisition based growth strategy to grow internationally. Limited possession of firm-specific advantages.	Three equity issues during 1984–1989, and cross-listing in London (1984). Attract foreign investors that wanted to take on 'Finnish' risk, and the relative undervalued stocks compared to international standards.	Mostly positive immediate reactions to issues, however, in the long-term the stock under-performed the domestic market. Amer was able to internationalize its cost of capital. But, a lack of clear business strategy and development of firm-specific advantages made the firms' long-term prospects less attractive.
Nokia, two directed issues, one private placement and one Euro-equity issue 1983–1994 (Finland)	Fund internal growth and further globalization of firm.	Fast growing telecommunication firm with unique firm-specific advantages in technology. Divested unrelated activities in domestic focused businesses.	Four international issues during 1983–1994, and cross-listing in London and New York. Nokia was able to price its equity in line with international competitors.	The share price increased around the announcement time, and the stock has greatly outperformed the domestic stock market.
Huhtamaki and Procordia, a strategic alliance in 1993 where Procordia provided capital (Finland)	Provide significant financial and operational synergies for both companies.	A moderate growth international firm with three lines of business: confectionery, food packaging, and pharmaceuticals. Significant firm-specific advantages, particularly in brand names of confectionery.	A foreign (Swedish) targeted issue of SEK 900 million.	Huhtamaki was able to raise capital at a 10% premium. The stock market reacted positively to announcement. The long-term (> one year) effect was positive, but the medium-term effect was negative. However, the strategic alliance was dissolved in 1996.

Table 1 Cont.

Company and (country)	Corporate motivation	Business strategy	Financial strategy: route to internationalizing the cost of capital	Performance
Nyorsk Data AS, two directed issues 1982 (London) and 1984 (New York) (Norway)	Provide funds for organic growth as well as international visibility among customers and investors.	A high growth computer company that had a firm-specific operating system	A successful directed issue of NOK 100 million in UK in 1982, and a second issue in the US in 1984 that provided NOK 396 million.	The infusions of capital enabled the firm to grow by 40 per cent per year over a long period. The first issue substantially increased stock price. In the long run the company was outcompeted technologically and failed.
Hafslund Nycomed, two international directed equity issues in 1989 and 1992 (Norway)	Provide competitively priced funding for future expansion, both in terms of internal growth and make room for acquisitions.	A high growth pharmaceutical company that intended to become a global niche player. Firm-specific advantages in R&D, however, initially weaker in distribution.	An international equity issue in June 1989 that gave the firm NOK 761 million, and shares listed on the London Stock Exchange. NYSE listing and a simultaneous equity issue that provided US\$ 74.7 million	The short-term outcomes of the equity issues were somewhat mixed, however, the long-term performance has been very attractive.
Elektrisk Bureau A/S and ASEA AB, a strategic alliance in 1986 (Norway)	Extend the international reach by coordination of R&D and marketing with a larger company	A high tech company in the electronic industry that teamed up with a major player	A targeted equity issue that provided NOK 370.5 million for a 20 per cent stake. The issue was an alternative to a separate international listing of Elektrisk Bureau	Elektrisk Bureau was fully acquired by ABB in 1991.
L.M.Ericsson, a directed issue in 1983 (Sweden)	Boost its international reputation as a technological leader, particularly in the US	A large telecommunication company that needed to enhance its global reach	Take advantage of a favorable foreign demand for the stocks to improve its debt ratio. The largest foreign directed issue to date was made: \$240 million. It also paved the way for future expansion.	This very large issue was sold out, but within the first year the stock performed poorly. However, the corporate objectives were achieved and the company became a global leader.
Electrolux, an Euro-equity issue in 1986 (Sweden)	Electrolux followed an aggressive acquisition strategy, and thus needed to enhance its corporate image and credibility with customers and suppliers.	A producer of mainly household appliances that was seeking to gain market leadership in a globally fragmented industry.	A Euro-equity issue of \$275 million that financed foreign acquisitions.	The stock issue had no significant short-term effect on stock price. The issue paved the way for further acquisitions, and the company maintained its favorable international cost of capital.
Fortia AB, a directed international equity issue in 1981 (Sweden)	Provide more credibility in the worldwide pharmaceutical market, as well as help to market its products. The issue also made it easier for Fortia to find potential cooperative partners in the US	A high growth pharmaceutical (biotech) company that by 1980 sold 86 per cent of its products abroad.	A directed equity issue in the US that raised \$51 million. The issue was supported by the fact that shares (ADS) could be traded on the over-the-counter market.	The US equity issue was very successful and substantially raised the share price. It also paved the way for a continued expansion.

^aSource: Adopted from the case studies in Oxelheim *et al.* (1998).

significantly depressing the stock price. Tele Danmark was listed on the NYSE and other stock exchanges to provide liquid secondary markets for its new foreign and domestic investors.

Finnish Cases

Two of the Finnish cases, Amer (1984 and 1989) and Nokia (1983 and 1994), raised equity in the United States and the United Kingdom in order to boost the liquidity of their shares, to help finance foreign acquisitions, and to improve the visibility of their products and companies. To help market these issues the firms listed in London and New York. In 1993 Huhtamaki's strategic alliance with Procordia of Sweden helped the company internationalize its cost of capital, and it provided for operational and financial synergies between the two companies.

Norwegian Cases

Similar to the Novo case, Norsk Data of Norway sold equity issues abroad and listed in London (1981) and New York (NASDAQ in 1984) in order to escape Norway's segmented capital market. Norsk Data was able to provide funds for capital investments beyond what could be supplied in Norway. During the successful early 1980s Norsk Data's (ceased to exist in 1992) ambition was to become the Digital Computers of Europe, and ample financial funds were needed to finance the 40 per cent annual growth.

The two major foreign equity issues of Hafslund Nycomed in 1989 and 1992 (now Nycomed Amersham) provided the firm with the financial strength to undertake a number of acquisitions abroad. The company also listed on the London and New York Stock Exchanges in order to provide a liquid secondary market for its new foreign owners. Hafslund Nycomed also wanted to improve its credibility with world leading medical communities.

In 1986 Elektrisk Bureau A/S used a targeted equity issue from ASEA AB of Sweden (later to become part of ABB) as an alternative to internationalizing its own shares, which were only traded on the Norwegian stock exchange. Through the ownership of ASEA Elektrisk Bureau was able to capitalize on ASEA's access to competitive international funding.

Swedish Cases

The Swedish cases show how access to international funding was paramount in the early 1980s. The main motivation of the Ericsson issue in 1983 was to boost the firm's position as a technological leader. A similar motivation was behind Fortia's (now part of Pharmacia-Upjohn) issue in 1981, as the firm sought recognition in the worldwide pharmaceutical industry. On

the other hand, Electrolux's aggressive growth strategy demanded an ample supply of competitively priced funds. However, a need for building a reputation with foreign investors was also important in the Electrolux case.

Business Strategy, Financial Strategies, and Performance

Most of the 12 case companies were able to achieve a short-term positive impact (i.e. a positive abnormal return) associated with the foreign equity issues. The long-term performance (beyond one year) of the stocks in question has been particularly good for companies with international growth potential and companies with unique firm-specific advantages. This is shown by the attractive performance of technology-based companies with a global potential, such as Nokia of Finland and Ericsson of Sweden.

Two aspects of the business strategy of our case companies deserve attention; first, the growth strategy; and second the degree of differentiation. We observe that high-growth companies targeting a global market (such as Nokia, Ericsson, Fortia, and Hafslund Nycomed) have more to gain by internationalizing their capital, than low-growth companies (such as Huhtamaki, Amer and Tele Danmark). The degree of differentiation concerns the relative market power of the company, commonly related to strong-brand names, patents or unique distribution capacity. A company that possesses unique company-specific capabilities and competencies (Haanes and Fjeldstad, 2000), or what Dunning (1993) labels 'owner-specific advantages', has more to gain from internationalizing its cost of capital. A competitive cost of capital will therefore help the firm to utilize its unique owner-specific advantages in a number of foreign markets. This is strongly the case of the pharmaceutical patent-driven companies (such as Fortia, Novo, and Hafslund Nycomed).

The Path to Internationalization of Capital

Figure 1 shows how foreign equity markets are normally tapped using one of three financial strategies. The preparation consists of the cross-listing of the company's shares. The first strategy is to make a directed issue of stocks, straight bonds, convertible bonds, or a hybrid instrument, sold in a specific foreign equity market. A directed private placement is also feasible. The second strategy is to make a Euro-equity issue sold in several equity markets simultaneously. This usually includes the home market in addition to foreign markets. The third strategy is

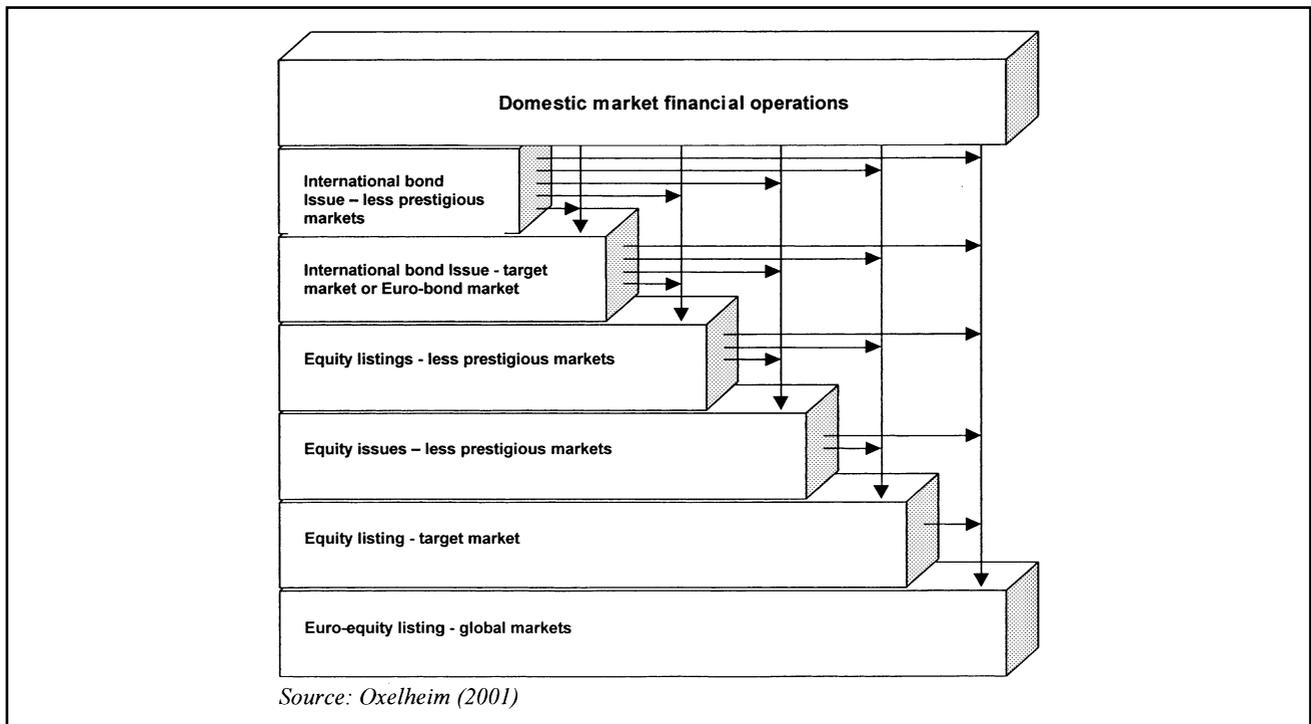


Figure 1 Alternative Paths to Internationalize the Cost and Availability of Capital

to receive an equity injection from a foreign partner as part of a strategic alliance.

Because of transaction and information acquisition barriers in the international capital market, a firm typically starts to raise funds in the domestic financial market. The information barriers are commonly larger for equity issues than for bond issues. Ideally, firms would like to jump from the domestic capital market to a 'Euro-equity issue.' This is usually impossible because the international investment community does not know the average firm.

The normal path of internationalizing a firm's capital is to start with an international bond issue in a less prestigious market. This provides the firm with added experience and enhanced visibility (and scrutiny) in the financial market. If possible, it is desirable to skip this first step and go directly to the next steps, international bond issue in a liquid target market or a Eurobond issue sold in several markets. Raising equity requires more commitment to disclosure and investor relations. A firm could start by listing and selling equity in a less prestigious market, i.e. not the United States or the United Kingdom. This is even more costly in time and money than a bond issue, but still less than a full-scale listing and equity issue in the United States or the United Kingdom (Hansen, 1986).

A low-cost alternative to foreign listing and equity issues is to add one or more independent directors from a prestigious capital market (Randøy and Oxelheim, 2001). This might improve corporate governance of the firm, and help it to build confi-

dence with foreign investors. However, this is only a first step and cannot be considered a long-term alternative to a foreign listing.

The ultimate financial strategy is to have a Euro-equity issue sold simultaneously both in foreign equity markets and the domestic market. Within the Nordic area Electrolux (1986) was among the first to tap the Euro-equity market. Euro-equity issue is also the path being taken by some of the newly privatized firms such as Tele-Danmark in 1994.

Cross-Listings

Firms cross-list on foreign stock exchanges for a variety of reasons whether or not they actually sell equity issues abroad (e.g. Saudagaran and Biddle, 1992; Saudagaran, 1988). The main documented motives are as follows:

- ❖ Achieve a world pricing of its equity when the home market is segmented.
- ❖ Improve the international visibility of the firm's products and securities to its customers, suppliers, creditors and host governments.
- ❖ Make it easier for the firm's foreign stockholders to trade its shares in their home markets and currencies, thus increasing the stock's overall liquidity.
- ❖ Foreign underwriters insist on local listing in their markets to help market a new equity issue.
- ❖ Create a liquid secondary market for shares used to acquire foreign firms, or to distribute to employees of foreign subsidiaries.

- ❖ Comply with governmental requirements for financing foreign investments.

The extent to which a firm's stock price can be increased by merely cross-listing on a foreign stock exchange, without a simultaneous equity issue, depends on how severely the home market is segmented and what efforts the firm has made to attract international investors. Sundaram and Logue (1996) found a favorable effect on stock prices for foreign firms that cross-listed on the New York and American Stock Exchanges during 1982–1992. For example, Novo Industri's stock price had already achieved world pricing before its equity issue in 1981 and the New York Stock Exchange cross-listing. However, Modén and Oxelheim (1997) report that a simultaneous equity issue and cross-listing generates a higher shareholder value than a mere cross-listing because of the stronger commitment by the issuing firm it signals.

Foreign investors can acquire a firm's stock through transactions on foreign stock exchanges. By cross-listing on their home stock market, a firm can help those investors to trade shares and receive dividends in their home currency. The hope is to increase overall liquidity for trading the firm's shares and to encourage the foreign investors to hold the firm's shares rather than selling them back to the firm's home market.

Directed Stock Issue

A directed stock issue is defined as one targeted at investors in a single country and underwritten in whole or in part by investment institutions from that country. The issue might or might not be listed on a stock exchange in the target market.

Directed stock issues were the investment of choice for Nordic firms during the early 1980s. Segmentation of the home equity markets made it difficult to attract international investors with a 'shotgun' approach. Indeed, the early Nordic equity issues abroad were focused and heavily promoted by Goldman, Sachs and Company (Novo Industri A/S), and Morgan Stanley (L.M. Ericsson AB, Fortia AB/Pharmacia, and Gambro).

Directed stock issues have been particularly useful to Nordic firms desiring to improve the liquidity of their shares, to achieve international pricing of their shares, and to become more visible to customers and suppliers. This was certainly the case for the aforementioned four firms in the early 1980s.

Even after the Nordic equity markets became less segmented, directed stock issues have been useful to fund acquisitions or new capital investments in the targeted foreign market. This was the motivation for Norwegian-based Hafslund Nycomed's directed

share issues in London (1989) and the United States (1992), as well as its listing on the New York Stock Exchange (1992).

At the end of the 1990s the pattern of directed issues turned from having been more or less 100 per cent cash issues into more or less 100 per cent non-cash issues. All growth firms used their own shares to pay for acquisitions (Oxelheim, 2001). However, this pattern did not at all reduce the burden on management of having a successful financial strategy.

Euro-Equity Issues

Not only have Nordic equity markets become less segmented but this trend is happening worldwide. It is occurring simultaneously with a rapid increase in international portfolio investment. As a result, a robust Euro-equity market has evolved starting in the mid-1980s.

Firms are able to issue equity, which is underwritten and distributed in more than one foreign equity market, sometimes simultaneously with distribution in the home market. The same financial institutions that form the backbone of the Eurobond market are the main players in the newer Euro-equity market.

The Euro-equity market has been the main vehicle for privatizing large public utilities from both industrialized and emerging markets. Nordic privatizations have in the recent past made use of the Euro-equity market and are expected to do more of the same in the future. Notable examples are the privatization of Tele Danmark (1994), Telia of Sweden (2000), and Telenor of Norway (2000). It should be noted that this capital market developed only during the past decade, so earlier Nordic equity issues did not really have a choice to use it.

Simultaneous distribution in several equity markets implies a single worldwide price. This price is often somewhat different than the previous home market price but results from a compromise among the various national underwriters.

Strategic Alliances

Strategic alliances are usually created to take advantage of synergies in joint marketing, product development, or other commercial activities. However, financial synergy may also arise if a financially strong firm helps a financially weak partner by injecting favorably priced equity or debt into it.

The equity-based strategic alliances have in most cases helped the receiving firm to boost its stock price. However, in most cases the alliance relationship has been a 'trial marriage'. After some years the strategic alliance typically ends with either a

merger/acquisition (as with Elektrisk Bureau). The strategic alliance between Huhtamaki and Procordia was finished after three years. However, Elektrisk Bureau A/S and ASEA AB ended as a merger after five years.

The key to financial synergy with respect to equity pricing is that portfolio investors price shares according to their expected risk-adjusted rate of return. This is necessarily somewhat biased by past performance, but in any case cannot usually anticipate the synergistic effects of a strategic alliance that does not yet exist. Thus, the value of equity in Bang & Olufsen was higher from the perspective of Philips NV, which anticipated the operating and financial synergies, than Bang & Olufsen's value to the existing market of portfolio investors. Bang & Olufsen realized many of the anticipated synergies. Its operating performance improved dramatically. It also enjoyed a hefty share price increase compared to the Danish market as a whole. In 1997 it was able to repurchase its shares that were held by Philips NV but continued most other aspects of the strategic alliance.

Towards a Global Cost of Capital

Why is a lower cost of capital such an important issue for an aspiring global firm? We identify three major reasons why international managers should be concerned. First, in an increasingly integrated world of competitive and open product markets, producers cannot pass on a potentially higher cost of capital to customers. Nokia of Finland — the number one cellular phone maker in the world — does not have a 'cozy' home market where it can enjoy premium prices. Second, the advent of the knowledge economy makes equity financing more important, as the knowledge intensive firms do not make the kind of investments that produce collateral for debt financing. Third, the global wave of mergers and acquisitions makes it important for companies to boost stock price in order to maintain influence after a potential merger and protect themselves from being taken over.

The globalization of ownership, and thus internationalizing the cost of capital, leads to the new global shareholder regime (Table 2). A successful internationalization of capital produces a very international ownership structure, as the firm becomes a necessary part of global investors' world portfolio. Just two years after Nokia of Finland was listed on the NYSE in 1994, as much as 61 per cent of its shareholders were resident outside the home

country. This increased further as Nokia succeeded and actually was as high as 86 per cent in 2000.

The Link between Financial and Overall Corporate Strategies

As summarized in Table 2, shareholder value is the paramount measure of corporate success within the global shareholder regime. As stock ownership becomes increasingly international, the demand for accurate and timely information increases, and shareholders are showing less tolerance for meager performance. In order to build shareholder interest this research suggests that companies need to have an active investor relations function. Building confidence with international institutional investors should be the main focus of this activity, and case stories like

Nokia and Novo shows how this can be done.

A company with global ambitions needs to focus on corporate governance in order to gain shareholder confidence. For example, a survey of investor opinions suggests that 80 per cent of global investors express a willingness to pay a significant premium for well-governed firms (McKinsey and Company, 2000). One possible firm response could be to strengthen the governing board by recruiting a larger number of outside directors. For example, the NASDAQ Stock Exchange requires that a company that seeks listing have at least three independent (outside) directors (NASDAQ, 2001). Furthermore, global

“Just two years after Nokia of Finland was listed on the NYSE in 1994, as much as 61 per cent of its shareholders were resident outside the home country”

Table 2 The Effect of a Global Cost of Capital: The Global Shareholder Regime

Effect on Shareholders and Governing Structure

Higher stock price: increased shareholder returns
More demanding shareholders and less 'loyal' if a company does not satisfy expectations.

Top management and investor relations need to focus on international institutional investors

Need to strengthen governing boards and more independent directors

Need to expand incentive packages for key personnel based on shareholder value.

Effect on Business Strategy

Need to focus business strategy on core competencies and disposal of non-core business lines.

Need to be able to attract large amount of funds: strategic flexibility

The firm is more exposed to takeovers (building down of take-over defenses)

Need to make the firm attractive as a partner for mergers

investors expect that top management compensation be linked to the creation of shareholder value.

The analyzed Nordic cases show how significantly the financial strategy of gaining 'membership' of a global shareholder regime affects the business strategy of the firm. In the 'old world order' finance played a secondary role to business strategy, not so any more. Unless the company focuses on its core competence and disposes non-core activities, the company can be exposed to a hostile takeover attempt. Long-term confidence needs to be built with major institutional investors, such that a large amount of funds can be accessed if necessary (typically in relation to an acquisition). A company can strengthen its strategic flexibility and thus provide strategic real options by building trust with large investors. Within the global shareholder regime companies with an active defense against takeovers are penalized. For example, within the Nordic economies non-voting shares have become rather unattractive to investors. The cost of various takeover defenses can be measured in terms of lower stock price and thus a higher cost of capital. This provides closely controlled companies with a strong incentive for a more transparent shareholder policy. In fact, making the company an attractive partner of a potential merger becomes an important route to higher shareholder return.

Conclusion

In this study we have shown ways for aspiring global companies to achieve an international cost of capital. Based on 12 longitudinal case studies we discuss how access to competitively-priced capital accelerated the international growth prospects of Nordic companies. In fact, without this funding the competitiveness of these firms would have been significantly hampered. We argue that the Nordic cases provide an excellent 'laboratory' to understand successful execution of a global financial strategy and its implication for overall corporate strategy. Today this is particularly appropriate for any small- to medium-sized firm, as well as larger firms from more segmented capital markets, such as the ones in Eastern Europe.

We argue that the corporate motivation for internationalizing the cost of capital is the starting point for understanding a firm's globalization of ownership. Globalization of capital is particularly appropriate in conjunction with globalization on the product side. Second, we emphasize the need to link the business strategy with the financial strategy. Several avenues to internationalizing the cost of capital exist; from foreign stock issues to strategic equity alliances. Our case studies suggest that globalization of capital is more advantageous to companies with unique products and/or unique resources that serve high-

growth markets. Finally, the long-term performance of the case companies indicates that the internationalization of capital has largely been beneficial to the firms' shareholders.

We argue that globalization of ownership is really a new shareholder regime. First of all this affects shareholders and governing of firms, as global capital tends to be less tolerant of meager performance. Second, this implies that executives need to focus on the core competencies of the firm, as investors do not approve value-destroying diversification. Furthermore, global ownership also provides executives with greater opportunities to finance high-return/high-risk projects.

For the home country of aspiring global firms, internationalization of capital provides both opportunities and threats. On the positive side one can observe how a small country can produce some impressive global companies, such as the case of Nokia of Finland. On the other side, global firms are becoming more 'foot loose' and without the right government policies (or other factors beyond the control of governments) companies can move abroad.

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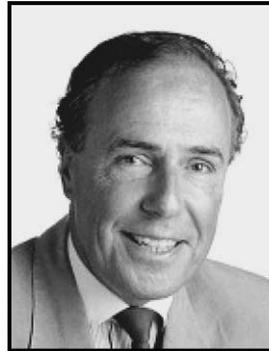
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