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The Nordic Anomaly
The Asymmetric Role of Private Equity in Identifying and Reversing Myopia in Sweden

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Abstract: Our thesis examines whether earnings-related managerial myopia influences Private Equity (PE) acquisitions in Sweden and whether PE ownership reverses such behaviour after takeovers. Building on U.S. evidence that PE investors target firms with myopic behaviour, we test whether this mechanism applies to the Swedish institutional context. Managerial myopia in this thesis is measured using abnormal investment, derived from the Choi et al. (2020) investment model. We analyse takeover likelihood through a linear probability model and evaluate post-buyout changes using a stacked cohort difference-in-differences design. Our sample consists of Swedish LBOs and MBOs from 2000-2019, matched using PSM with similar non-acquired firms. Our results show no evidence that underinvesting firms are more likely to be acquired by Swedish PE buyers. Instead, PE firms primarily select larger and more profitable targets. However, once acquired, previously underinvesting firms demonstrate significant improvements in investment intensity, indicating that while myopia does not drive selection in Sweden, PE ownership does correct it post-acquisition.

Keywords: Earnings-related managerial myopia, Managerial behaviour, PE takeover, Post-buyout performance, Nordic corporate governance, value creation

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Table of Contents

1. Introduction

Private Equity (PE) plays an unusually powerful role in Sweden's corporate landscape. According to Copenhagen Economics (2020), Sweden has the second-largest PE market in the EU relative to GDP, surpassed only by Luxembourg, with fundraising levels nearly three times greater than Sweden's share of the EU economy. Chambers and Partners (n.d.) report that in 2024, PE investment reached SEK 88 billion across 370 companies, the highest level relative to GDP in Europe. The broader economic footprint is equally striking; Copenhagen Economics (2020) estimates that since 2007, PE and venture capital activity have contributed SEK 230 billion to Swedish GDP and supported more than 322,000 jobs, representing over 6% of total national employment. Given the scale and influence, governance outcomes in Swedish PE on firms carry significant implications not only for investors but also for policymakers and academics. Given these dynamics, PE buyouts become a revealing setting for examining a central tension in modern corporate governance: The clash between short-term financial pressures and long-term value creation. Rather than treating this tension in abstract terms, this thesis asks a more focused question: how do sophisticated financial actors, specifically PE investors, interpret, respond to, and potentially exploit the traces that short-termism leaves in firms' investment and operating decisions?

Short-termism and managerial myopia are closely linked, but they are not identical. Dallas (2012) and Erasmus (2015) characterise short-termism as a structural market orientation towards immediate earnings, shaped by characteristics like frequent reporting cycles and analyst pressure. Managerial myopia, however, is the firm-level response to these systemic pressures. Graham et al. (2005) demonstrate that managers frequently sacrifice long-term economic value to satisfy these short-term performance demands. These behaviours carry a lasting cost: as Hribar et al. (2024) and Tong and Zhang (2014) show, firms that repeatedly "borrow" from the future in this way experience subsequent declines in productivity, competitiveness, and long-term profitability.

The natural follow-up question is whether any governance arrangement is capable of counteracting this pattern of behaviour. In the U.S., PE has long been viewed as one such candidate. The takeover wave of the 1980s, Hribar et al (2024) note, often associated with leveraged buyouts, gave rise to an influential view of PE as an external discipline mechanism.

Jensen (1986) argues that buyout structures, with concentrated ownership and substantial leverage, disable many of the options managers have to hoard free cash flow or pursue empire-building strategies. Opler and Titman (1993) and Lehn and Poulsen (1989) suggest that PE investors act as specialised arbitrageurs who identify firms where agency problems, including underinvestment in long-term assets, have generated a gap between current performance and potential value. In this narrative, PE is not simply a source of capital but a governance intervention aimed at reconfiguring incentives and strategic priorities.

In recent work, Hribar et al. (2024) provide the most comprehensive empirical test of this view, and their study forms the benchmark for this thesis. They construct a multi-dimensional measure of earnings-driven managerial myopia and show that, in the U.S. environment, firms with stronger indications of myopic behaviour are significantly more likely to be acquired by PE investors. After acquisition, these firms exhibit significant reversals in the very behaviours that previously signalled myopia: investment intensity recovers, and productivity improves in ways consistent with a shift from short-term earnings management to long-term value creation. Therefore, Hribar et al. (2024) propose a two-step mechanism. First, managerial myopia serves as a selection criterion: PE firms target companies whose current performance has been shaped by myopic distortions. Second, PE ownership functions as a corrective force, relaxing short-term pressures and re-orienting policies toward sustainable growth.

At first glance, this evidence is compelling. However, Jackson (2010) argues that these practices are also deeply embedded in specific institutional features of the U.S. corporate landscape, such as dispersed ownership, a highly active market for corporate control, dense analyst coverage, and a shareholder base dominated by arms-length institutional investors. It is not obvious that the same mechanism should operate in the same way in environments where corporate ownership, monitoring, and access to external finance are structured differently. This makes the Nordic region, and Sweden in particular, an especially interesting contrast. Brunzell et al. (2011) note that Swedish firms are often characterised by concentrated ownership, dual class share structures, and close relationships between controlling owners and management. They report that Nordic executives perceive large, active owners as reducing pressure to respond to short-term market noise. Olsson and Tåg (2017) describe the Swedish governance model as one in which monitoring is internalised through strong blockholders and board representation, supported by

relatively high disclosure standards. In such a context, the scope for detecting myopic manipulation might be narrower, and the informational content of suppressed investment can be quite different from the U.S. case.

Eklund (2008) notes that Scandinavian firms often rely heavily on internal liquidity to fund long-term investments, meaning that reductions and investments may reflect structural financial constraints rather than short-term managerial manipulation. This ambiguity, where identical investment patterns can signal opportunistic earnings myopia in one setting but genuine financing limitations in another, complicates the direct application of U.S.-based findings to Sweden. Nordic PE behaviour further suggests institutional differences: Kärnä and Mayers (2025) show that Swedish PE targets typically display solid profitability and comparatively low leverage pre-takeover, indicating a tendency to screen "winners" rather than turn around distressed, under-investing firms. Against this backdrop, the thesis asks whether the mechanism documented by Hribar et al. (2024), where PE investors identify and correct managerial myopia, operates similarly in the Swedish context. Specifically, it investigates the following two research questions:

1. *Are Swedish firms exhibiting earnings myopia more likely to be acquired by private equity?*
2. *After PE acquisition, do myopic Swedish firms experience improved long-term investments?*

By testing the U.S.-derived model in a distinct institutional environment, the thesis evaluates whether the unexpected selection and corrective effects of PE ownership replicate in Sweden and what their presence or absence reveals about how governance structures shape investor responses to managerial behaviour. This approach allows our thesis to contribute by evaluating whether U.S. selection patterns reappear in Sweden, by identifying the extent to which PE ownership reverses myopic underinvestment, and by showing how Sweden's institutional setting reshapes the economic meaning of these mechanisms.

To investigate these questions, the thesis conducts a quantitative analysis of PE transactions involving Swedish firms between 2000 and 2019, including both leveraged buyouts (LBOs) and management buyouts (MBOs). To capture earnings-related managerial myopia, we use the

residuals of the investment model proposed by Choi et al. (2020), which measures abnormal investment relative to the optimal level based on the firm's accounting data. The takeover likelihood is then analysed by comparing PE targets to a matched set of non-acquired firms, constructed using Propensity Score Matching (PSM) based on firm size, leverage, and industry. This design aims to approximate a counterfactual in which similar firms that are not acquired provide a benchmark for interpreting the selection pattern observed among those that are. Post-acquisition developments in investment and profitability are examined using a stacked cohort analysis method that tracks firms before and after the buyout, to assess whether reductions in myopic behaviour and improvements in investment and profitability are systematically stronger for firms that initially appeared constrained or distorted.

The empirical patterns observed in this analysis point to a complicated answer. In contrast to the U.S. evidence, abnormal investment does not seem to increase the probability that a Swedish firm becomes the target of a PE takeover. In other words, the selection mechanism of seeking out firms with myopic distortions, identified by Hribar et al. (2024), does not replicate in this context. However, once firms are acquired, those that entered the buyout period with suppressed investment display more significant recoveries than firms without such a history. This suggests that PE ownership in Sweden can still function as a corrective force for firms that had been "starved" of investment, even if firms were not selected because of that condition.

The thesis is structured as follows. Section 2 discusses the literature review, building on the conflicting empirics of the U.S. and the Nordics. Section 3 details the research methodology. including data construction and calculation strategies. Section 4 highlights our empirical results, documenting the null selection effect and positive correction effect post-takeover. Section 5 discusses the implications of our findings. Finally, Section 6 concludes the thesis, summarising our contributions, acknowledging the limitations and suggesting ideas for future research.

2. Literature Review: Empirical Studies

The research question posed in this thesis, whether earnings-driven managerial myopia serves as a selection mechanism for PE in Sweden, and whether PE ownership corrects these distortions, is rooted in broad empirical research. The following section examines the academic evidence for

managerial myopia, defining it not as an abstract cultural tendency but as a specific set of detectable operational behaviours used to distort performance. Our thesis then reviews the extensive U.S.-based evidence regarding the determinants of leveraged buyouts (LBOs) and management buyouts (MBOs), establishing PE as a corrective mechanism for agency conflicts. Finally, it contrasts this with Nordic evidence, where empirical findings suggest that investment behaviour may be driven by structural liquidity constraints rather than myopic agency problems.

2.1 Earnings-Related Managerial Myopia

Short-termism and earnings-related managerial myopia are closely related but conceptually distinct phenomena that interact to shape corporate behaviour. Dallas (2012) defines short-termism as a systemic tendency to prioritise short-term financial performance at the expense of long-term value creation. This behaviour emerges through institutional conditions like frequent reporting cycles, deep analyst coverage and high turnover of institutional shares. Erasmus (2015) adds that this system-level bias is reinforced collectively by managers, boards, investors, and intermediaries. He notes that within this environment, behavioural mechanisms such as hyperbolic discounting, the tendency to overweight immediate outcomes, intensify the pull towards short-horizon decision-making. On the other hand, Graham et al. (2005) state that earnings-related managerial myopia is a behavioural response where managers actively sacrifice long-term value to meet short-term targets. Unlike external capital market pressures, myopia is an internal strategic choice. The empirical literature by Bushee (1998) and Roychowdhury (2006) has identified two primary mechanisms through which myopia manifests: the suppression of investment and the manipulation of real operations to "borrow" earnings from the future, respectively.

Bushee (1998) was a pivotal study in identifying reductions in Research and Development (R&D) as a primary signal of myopic behaviour. He established that managers are willing to sacrifice intangible capital formation, which is the primary driver of future growth, to satisfy immediate market pressures. This behaviour is especially noticeable in firms with high "transient" institutional ownership, where investors focus heavily on quarterly earnings surprises. The logic for targeting R&D is rooted in accounting rules: R&D is typically expensed immediately, unlike capital expenditures (Capex), which are depreciated over time. So a dollar

cut in R&D translates directly to a dollar increase in current operating income. However, this creates a severe disconnect between accounting performance and economic reality. While the numbers improve immediately, the firm's competitive advantage declines over time. Bushee's findings confirmed that this is not only a matter of accounting presentation, but it involves the diminishing of real economic value, as firms that cut R&D to meet targets subsequently underperform in innovation and long-term equity returns.

While R&D cuts are transparent and easily detected by sophisticated investors, subsequent literature has focused on more opaque operational distortions, known as real earnings management. Roychowdhury (2006) empirically modelled real earnings management through abnormal deviations in discretionary expenses, production costs, and cash flows relative to industry norms. This work provided a comprehensive understanding of how managers manipulate real activities to meet earnings thresholds. Roychowdhury (2006) identified that managers cut discretionary expenditures such as advertising, employee training and Selling, General, and Administrative (SG&A) expenses. These actions, like R&D, boost current earnings but damage the firm's brand and human capital over time. They also found that overproduction can act as a means of artificially inflating margins: spreading fixed overhead across a larger number of units and lowering the Cost of Goods Sold (COGS). This, however, leads to bloated inventory levels and higher holding costs in future periods. Managers may also offer aggressive price discounts to temporarily boost sales volumes toward the end of the quarter. While this accelerates revenue in the current period, it "borrows" from future demand and trains customers to wait for discounts, hence eroding future pricing power.

Real earnings management leads to severe consequences because it changes the firm's actual cash flows and operations. Tong and Zhang (2014) provide longitudinal evidence that this myopic behaviour imposes persistent negative effects on firm value. Their findings indicate that firms engaging in real earnings management exhibit lower future total factor productivity (TFP) and weak innovation output compared to other firms. This confirms that myopia acts as a permanent hazard to the firm's long-term capacity, creating a tangible difference between the firm's current trajectory and its potential optimal performance.

Recent studies have moved toward composite measures to capture the multidimensional nature of myopia. Hribar et al. (2024) introduced a composite *MYOPIA* index that aggregates multiple

signals like frequent earnings surprises, consecutive earnings increases, frequency of guidance issued and unexpectedly low R&D spending. This measure allowed them to identify firms that are systematically engaged in earnings-driven myopic distortions. They found that this composite measure is a robust predictor of PE interest, suggesting that sophisticated investors look beyond basic accounting data to identify the unsustainable operational choice supporting them.

2.2 PE as a Corrective Mechanism

If myopia creates a value gap, empirical evidence from the U.S. suggests that PE investors act as the primary arbitrageurs. To understand this mechanism, one must look beyond recent studies to the foundational literature on the determinants of LBOs and MBOs, which have historically been viewed as solutions to agency conflicts.

The theoretical grounding for PE as a corrective force is the "free cash flow (FCF)" hypothesis proposed by Jensen (1986). Jensen argued that in public corporations with dispersed ownership, managers have an incentive to hoard cash or waste it on negative-NPV projects (empire building) rather than returning it to shareholders. Lehn and Poulsen (1989) empirically tested this by examining the determinants of going-private transactions in the 1980s. They found that undistributed cash flow was a significant and positive determinant of LBOs, suggesting that PE intervenes to discipline management and prevent the dissipation of resources. By loading the firm with debt, the LBO forces managers to pay out cash flows to service interests, effectively bonding them to efficiency.

Expanding on this, Opler and Titman (1993) identified that LBO targets are frequently characterised by low Tobin's q ratios (ratio of a firm's market value to the replacement cost of its assets). A low Tobin's q is a market signal that the firm's assets are being managed inefficiently: the market is discounting the firm's future growth due to managerial underinvestment or poor capital allocation. Opler and Titman found that LBOs were more likely in firms with low q but high cash flows, the precise profile of a firm where value is trapped by agency conflicts. In the context of myopia, this low valuation acts as a signal that the market has recognised the firm's deteriorating long-term prospects due to R&D cuts or operational manipulation.

The link between myopia specifically and buyouts is more nuanced than general inefficiency. Fischer and Louis (2008) examined the determinants of MBOs and found evidence of strategic myopia. They observed that MBOs are often preceded by periods of abnormal negative accruals and investment distortions. Their findings suggest that managers, anticipating a buyout, have an incentive to depress earnings and investment to lower the stock price, thereby allowing them to acquire the firms at a discount. This "Strategic undervaluation" is a form of self-dealing where managers use myopia not just to hit targets, but to facilitate a transfer of wealth from public shareholders to themselves.

Hribar et al. (2024) extend this logic to third-party Private Equity sponsors. They demonstrate that independent PE firms also target this myopic profile. They found that firms with high myopia scores, characterised by suppressed R&D and manipulated real activities, are significantly more likely to be acquired by PE firms. This suggests that PE investors possess superior information-processing capabilities that allow them to distinguish between structurally poor performance (which they avoid) and performance that is artificially depressed by reversible managerial choices (which they target). The "arbitrage" here is the difference between the firm's value under myopic public management and its value under long-term private ownership.

If the selection mechanism is valid, the post-acquisition data should show a reversal of these behaviours. The empirical record largely supports this "corrective" view in the U.S.. Guo et al. (2011) document that PE governance typically involves restructuring compensation to link payoffs with long-term cash flows rather than near-term earnings. Hribar et al. (2024) provide direct empirical validation of this reversal, observing that following the takeover, the target firms cease the specific behaviours associated with the myopia. By taking the firm private, PE sponsors effectively dismantle the pressure to meet analyst forecasts and smooth earnings, leading to a measurable decline in the indicators of managerial myopia that characterised the firm prior to acquisition.

Empirically, this governance shift leads to the "unleashing" of investment. Lerner et al. (2011) examined the impact of LBOs on innovation and found that while PE firms may cut non-essential costs, they do not suppress innovation. On the contrary, patent citations (a proxy for innovation quality) often increase post-buyout, suggesting a refocusing on high-value long-term projects. Similarly, Boucly et al. (2011) found that LBOs are often followed by growth

in size and profitability, particularly in credit-constrained firms. These findings collectively support the U.S.-centric view that PE acts as a corrective mechanism: identifying distorted firms, privatising them to remove short-term pressure, and realigning incentives to restore long-term value creation.

2.3 The Nordic Context

With the U.S evidence supporting a "corrective" logic where PE fixes broken firms, empirical studies from the Nordic region present a conflicting narrative. The Swedish institutional environment yields competing signals regarding the role of PE, suggesting that the U.S determinants may not be universal.

Some Swedish studies align with the efficient view found in the U.S.. Sheng & Svenningsson (2014) analysed Swedish PE buyouts and found that portfolio firms record abnormal gains in Total Factor Productivity (TFP), particularly in goods-producing industries. This implies that PE governance actively improves operational efficiency and capital allocation, consistent with the agency cost reduction proposition. Furthermore, Brunzell et al. (2011) report that the presence of large PE blockholders in listed Nordic firms significantly reduces the perceived pressure on management to engage in short-term issues. In their survey of Nordic executives, they found that active ownership acted as a shield, allowing managers to focus on longer investment horizons compared to their peers with dispersed ownership. This supports the notion that PE mitigates myopia, potentially by pre-empting it through better monitoring.

However, a distinct and critical stream of literature challenges the applicability of the agency-driven myopia model to Sweden. Eklund (2008) provides crucial evidence regarding the drivers of investment in Scandinavia. He documents that Scandinavian firms display an exceptionally high sensitivity of investment to internal liquidity, relying disproportionately on retained earnings for investment, a finding consistent with financing constraints.

Eklund argues that this behaviour is driven by structural capital market frictions, such as tax wages favouring internal funds, dual-class share structures that discourage equity dilution and labour market rigidities. He notes that these institutional factors create obstacles for external financing that appear too large to be explained merely by agency costs or information

asymmetries, the primary mechanisms in the U.S. myopia model. In the U.S. model, a firm cutting investment is assumed to be "cheating" (myopia) or misallocating internal funds. In the Scandinavian model, a firm cutting investment is driven by constraints rather than incentives; the "correction" required is not better governance, but simply access to more efficient capital markets and external capital.

The shift in PE investment in strong institutional economies, particularly in the Nordic context, suggests a move from "correcting" distressed firms to "screening" profitable ones that require capital for expansion. This is empirically supported by Kärnä & Myers (2025), who found that Swedish PE targets exhibit significantly higher profits and lower debt than peers, consistent with a PE strategy focused on financial structuring through leverage rather than operational turnarounds. This finding aligns with the broader paradigm shift identified by Verbouw et al. (2025), where PE value creation has evolved from pure financial engineering toward strategic entrepreneurship and growth. However, this high pre-acquisition profitability creates an interpretive challenge: while it may signal genuine operational strength, it is also the financial signal of myopic managerial behaviour.

If Swedish PE investors are indeed "screening" for pre-existing profitable firms rather than operationally distressed ones, then we would expect post-takeover changes to focus primarily on capital structure rather than operational repair. Mörk and Petersson (2012) provide empirical support for this perspective. They examined Swedish buyouts from 1998 to 2011, and found that while leverage increased, there were no statistically significant improvements in EBITDA or ROA relative to control firms. This neutrality challenges the "corrective" model, suggesting that for a portion of Swedish PE targets, PE ownership does not trigger operational gains.

2.4 Theoretical Framework

This thesis relies on a theoretical framework consisting of agency theory, arbitrage and institutional theory. These topics allow us to understand both the universal incentives for myopia and the specific environmental factors that might moderate them in Sweden.

2.4.1 Agency Theory and Information Asymmetry

Agency theory was formalised by Jensen and Meckling (1976), defining the relationship between a principal and an agent. The two parties enter into a contract where the former delegates decision-making authority to the latter. The fundamental conflict arises because agents (managers) typically maximise their own utility rather than that of the principal (shareholders), leading to agency costs. This results in the reduction in welfare experienced by the principal due to the divergence between the interests of the agent and the decisions that would maximise shareholder value.

Dechow and Sloan (1991) investigate a specific version of this agency conflict, called the horizon problem. This problem arises when a manager's tenure is shorter than the firm's investment horizon. They found that CEOs in their final years of office reduce R&D expenditures to improve short-term earnings performance, hence engaging in myopic behaviour. Since these managers won't be present to reap the future benefits of current R&D, they reject positive NPV investments to boost current compensation or reputation.

This myopic behaviour is sustained by information asymmetry. Aboody and Lev (2000) show that R&D creates a significantly larger information gap than tangible assets because R&D projects are unique to the developing firm and lack organised markets for valuation. Consequently, insiders possess private information about the productivity of these investments that external stakeholders cannot easily observe.

Managers exploit this information asymmetry to influence market perceptions, which is described by Aghamolla and Hashimoto (2023). Their model explains that uninformed managers attempt to mimic the behaviour of informed managers to signal competence to the market. To successfully do so and meet earnings guidance, these uninformed managers engage in investment distortion, specifically deviating from the optimal investment level depending on their earnings targets. This confirms that investment distortions are not random errors, but strategic choices made to manage external perceptions in an environment of imperfect information.

2.4.2 Arbitrage Theory

While agency theory and information asymmetry help us understand why managers cheat, the arbitrage theory posits that equity markets possess self-correcting mechanisms for such failures. According to Manne's (1965) theory, a low share price relative to potential value acts as an invitation for a takeover. This mechanism turns the agency problem into an opportunity for arbitrage.

Opler and Titman (1993) study this in the context of buyouts, arguing that when managers fail to maximise shareholder value by suppressing investment or inefficiently managing cash flows, the firm's Tobin's q falls below the replacement cost of its assets. This undervaluation acts as a clear signal to potential acquirers that there is untapped value within the firm. The lower the stock price falls due to myopic management, the more attractive the firm becomes a target.

In this framework, PE acts as the arbitrageur of governance. Fischer and Louis (2008) theorise that buyouts are essentially arbitrage transactions where the acquirer capitalises on the difference between the firm's distorted value and its potential value. According to Jensen (1989), the PE governance model solves the underlying agency problem by concentrating ownership and realigning incentives. By privatising the firm, PE removes the need for signalling since there is no public market to signal to. By increasing managerial ownership and leverage, PE incentivises the manager to shift the firm's focus to long-term cash flows. If this theory holds universal validity, we should expect to see PE firms in Sweden systematically targeting companies with agency failure: abnormal investment cuts and manipulated earnings.

2.4.3 Institutional Theory

Finally, institutional theory helps us understand why the Swedish context may moderate these mechanisms. The theoretical assumptions of agency theory and arbitrage theory rely heavily on there being dispersed ownership and liquid markets. However, the Nordic corporate governance model is distinct from the dispersed ownership systems of the U.S. and the U.K..

The Swedish capital landscape is defined by concentrated ownership and strong monitoring traditions according to Olsson and Tåg (2017). Swedish firms are often controlled by families,

industrial holding companies, or investment vehicles utilising dual class shares to maintain voting control. In such an environment, information asymmetry is theoretically reduced.

Brunzell et al. (2012) argue that because dominant owners have both the incentive and the access to monitor management closely, through board representation, the scope for earnings manipulation is restricted. If a manager attempts to cut R&D to boost short-term earnings, it would likely be detected by a controlling owner. This theoretical moderator suggests that the arbitrage mechanism may be less common in Sweden. If the agency costs that drive myopia are already mitigated by active ownership, PE firms cannot profit by fixing them. Instead, the reason for PE involvement may align better with Eklund's (2008) theory of liquidity constraints: PE enters to provide financial resources, not to restore discipline.

2.5 Hypotheses

Drawing on the corrective logic of the U.S. empirical evidence of Hribar et al. (2024) and Opler & Titman (1993) and the theoretical arbitrage mechanism, while acknowledging the tension introduced by the Nordic institutional context by Eklund (2008) and Kärnä & Myers (2025), we formulate the following hypotheses. These are designed to test whether the U.S. selection mechanisms hold in Sweden, or if the unique institutional environment renders it invalid.

Hypothesis 1: *Firms exhibiting stronger evidence of earnings-related managerial myopia are more likely to be taken over by private equity buyers, as this distortion provides them with an arbitrage opportunity.*

Hypothesis 2: *After being acquired by a private equity firm, firms that previously exhibited earnings myopia will show larger post-buyout improvements in investment intensity compared to non-myopic targets, reflecting the changes that PE ownership implements to shift focus to long-term value creation.*

3. Methodology

In the following section, we will outline the methodological process used to answer our research questions. To test our first hypothesis, we use the takeover model that Hribar et al. (2024) proposed, with control variables that suit the Swedish context. We then test our second hypothesis using another model that they derived, to test whether Swedish firms which were myopic experienced a positive change in their investment levels post takeover event. To further test the second hypothesis, we conduct a validation check to investigate how a firm's profitability is affected post-PE takeover, and if the change is in line with what we currently know about the role of PE in markets.

3.1 Myopia Measure

According to prior literature, earnings-related managerial myopia is inherently multidimensional, which makes it difficult to measure clearly. Carlsson-Wall (2024) argues that the absence of quarterly guidance and the relatively limited analyst coverage in Sweden reduce the external pressures that typically drive short-term managerial behaviour, making it more difficult to identify a reliable proxy for earnings-related myopia

Following earlier studies, most notably conducted by Bushee (1998) and Roychowdhury (2006), myopic behaviour is primarily linked to reductions in investment and R&D. The Swedish private setting, however, offers limited and inconsistent data on R&D and SG&A expenses. In contrast, capital expenditures are both well-reported and represent the clearest discretionary option available to managers. Hence, we rely exclusively on cuts in capital expenditures as our primary proxy.

We use the residuals of the investment model developed by Choi et al. (2020) as our proxy, which measures the deviation of a firm's investment relative to its optimal level according to its accounting data. We henceforth refer to it as abnormal investment, or *ABN_INV* for short. By focusing on these residuals, we isolate a direct measure of real economic sacrifice. This measure reflects a genuine trade-off between preserving cash today and creating value in the future. Hence, this makes *ABN_INV* the most economically grounded and context-appropriate proxy for managerial myopia for this thesis.

Choi et al.'s (2020) equation consists of Tobin's q, which we replace with sales growth instead. According to Badertscher et al. (2012), sales growth and Tobin's q are both used as proxies for investment opportunities. The Tobin's q ratio is not observable in private firms since they are not traded on a stock exchange, and hence we prefer to use sales growth. The new equation is:

$$INVEST_{i,t} = \alpha_0 + \alpha_1 SALES\_GR_{i,t-1} + \alpha_2 CFO_{i,t} + \alpha_2 ASSET\_GR_{i,t-1} + \alpha_2 INVEST_{i,t-1} + \varepsilon_{i,t}$$

Where $INVEST_{i,t}$ is firm *i*'s capital expenditure in year *t*, divided by net PPE at the beginning of the year; $SALES\_GR_{i,t-1}$ is the percentage change in firm *i*'s sales between years *t-2* and *t-1*; $CFO_{i,t}$ is cash flow from operations in year t; and $ASSET\_GR_{i,t-1}$ is the percentage change in firm *i*'s assets between years *t-2* and *t-1*. The residual captures the extent to which a firm's investment deviates from the optimal investment level, and is thus used to measure investment inefficiency, or in the context of this thesis, myopia. A negative residual means the firm is underinvesting, whereas a positive residual means the firm is overinvesting.

3.2 Takeover Model

To test the first hypothesis of whether or not Swedish firms that display myopia are more likely to be a target of PE firms, we use panel regression using the following equation, which was inspired by Hribar et al. (2024). All explanatory variables are measured in year *t*, and the takeover event refers to year *t+1*, ensuring temporal ordering and mitigating simultaneity bias. We only look at data which is a year prior to the investment year. The takeover model is as follows:

$$PE\_ACQ_{i,t+1} = \beta_0 + \beta_1 ABN\_INV_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEVERAGE_{i,t} + \beta_4 ROA_{i,t} + \beta_5 CASH\_RATIO_{i,t} + \beta_6 AVG\_ASSET\_TURNOVER_{i,t} + Year\_FE_t + Industry\_FE_j + \varepsilon_{i,t}$$

Where $PE\_ACQ_{i,t+1}$ is a dummy variable which equals 1 if firm *i* was taken over by a PE firm in *t+1* and 0 otherwise; $ABN\_INV_{i,t}$ is our independent variable; and we control for basic firm characteristics.

Firm size ($SIZE_{i,t}$) is measured as the common logarithm of total assets and captures the idea that larger firms are less likely to be taken over due to higher transaction costs and stronger market power. Leverage ($LEVERAGE_{i,t}$), defined as total debt over total assets, controls for financial

risk, since highly leveraged firms are generally seen as less attractive takeover targets. Return on assets ($ROA_{i,t}$) is calculated as net income in year *t* divided by total assets at the beginning of that year, reflecting the expectation that more profitable firms are more appealing to PE acquirers. Cash ratio ($CASH\_RATIO_{i,t}$), defined as the sum of short-term investments and cash and cash equivalents divided by current liabilities, captures the firm's liquidity. This is relevant because LBOs require substantial debt financing, making firms with stronger cash positions more suitable targets. Finally, asset turnover ($AVG\_ASSET\_TURNOVER_{i,t}$) measured as net sales divided by average total assets between t-1 and t, controls for operational efficiency, ensuring that our proxy for myopia is not confounded with broader inefficiency in managing assets. All variable descriptions are listed in Table 7, Appendix 8.2.

By including year and industry fixed effects, the model isolates firm-level variation from broader economics and sectoral shocks that could simultaneously influence both investment behaviour and takeover activity. The industry is provided by the Serrano database in the form of the Swedish Standard Industrial Classification (SNI). The year is the year of the investment. The linear probability framework allows for straightforward interpretation of coefficients and avoids the incidental parameters problem associated with fixed effects in non-linear models like the logit model.

For the coefficient of our myopia proxy, *ABN_INV*, we expect a negative and statistically significant value. Since lower (more negative) values of *ABN_INV* indicate underinvestment, a negative coefficient implies that as a firm's investment falls, its probability of being acquired increases.

3.3 Post-Takeover Model

To address our second research question and evaluate how PE takeovers influence earnings myopia, we estimate a post-takeover performance model following Hribar et al. (2024) that examines changes in investment behaviour once an acquisition is completed. The model tests whether firms identified as more myopic before the deal exhibit different post-acquisition operating outcomes than firms that were less myopic. The analysis focuses on the acquirer's performance, measured through abnormal investment behaviour in the years immediately after the takeover.

$$Y = \beta_0 + \beta_1 \, POST \; x \; PE\_ACQ \; x \; PRE\_MYOPIA_{i,t,c} + \beta_2 \, POST \; x \; PE\_ACQ_{i,t,c} + \beta_3 \, PE\_ACQ_{i,t,c} + \beta_4 \, LEVERAGE_{i,t,c} + \beta_5 \, SIZE_{i,t,c} + \beta_5 \, ASSET\_TURNOVER_{i,t,c} + \beta_6 \, ROA_{i,t,c} + \beta_7 \, CASH\_RATIO_{i,t,c} + \gamma_{t,c} + \delta_{t,c} + \varepsilon_{i,t}$$

The dependent variable Y represents abnormal investment (ABN_INV), which captures changes in long-term investment behaviour and investment efficiency after a takeover. The key independent variable in this equation is the triple interaction term $POST \; x \; PE\_ACQ \; x \; PRE\_MYOPIA_{i,t,c}$. POST equals 1 in the post-takeover period and 0 otherwise. PE_ACQ is a dummy indicating that the firm was acquired by a PE buyer. PRE_MYOPIA is a continuous measure of the firm's earnings myopia prior to acquisition, calculated as its average ABN_INV value in the years prior to the acquisition.

The coefficient β_1 on this triple interaction term is the key component we are analysing. We expect a negative coefficient because PE ownership acts as a corrective mechanism: since underinvestment is represented by negative values, a negative coefficient is required to turn those negative pre-acquisition values into a positive increase in post-acquisition investment. The existence of this outcome would further support our hypothesis that PE helps relieve specific costs imposed by myopic behaviour. Furthermore, the double interaction term $POST \; x \; PE\_ACQ_{i,t,c}$ (β_2) captures the generic effect of a PE takeover. Although the model also includes the main effect PE_ACQ (β_3) to capture the baseline differences between treated and control firms, this constant term is absorbed by the firm-by-cohort fixed effects in our specification.

According to Hribar et al. (2024), we include $LEVERAGE_{i,t,c}$, $SIZE_{i,t,c}$, and $ASSET\_TURNOVER_{i,t,c}$ as control variables to represent firm characteristics that may independently influence investment and productivity outcomes. We also add $ROA_{i,t,c}$ and $CASH\_RATIO_{i,t,c}$ as additional control variables for the same reason. Finally, $\gamma_{t,c}$ and $\delta_{t,c}$ are year-by-cohort fixed effects and firm-by-cohort fixed effects, respectively, which constitute the core of our stacked regression design. These fixed effects control for industry-specific time-varying and time-invariant unobserved factors affecting the matched control firms, improving the robustness of our identification strategy.

We run this analysis to test how PE takeovers impact earnings-related managerial myopia in Swedish firms. While the original theory posits that PE firms relieve public companies from capital market pressures, we adapt this framework to the Swedish context, where transactions are predominantly private-to-private. Conversely, our model tests whether any benefits of buyouts are concentrated among firms that were most myopic beforehand, rather than examining just the average effect of a PE buyout. Therefore, a negative and significant estimate for β_1 will provide evidence that, at least in part, PE operates to remedy managerial short-termism, promoting more long-term investments.

3.3.1 Validation Check

As a validation check, we re-estimate the post-takeover model using return on assets (*ROA*) as the dependent variable. In this specification, *PRE_MYOPIA* is replaced with *PRE_ROA*, defined as the firm's average *ROA* across all years prior to the acquisition. This test evaluates whether PE takeovers influence firm profitability and helps verify the economic meaning behind our investment-based results.

$$Y = \beta_0 + \beta_1\ POST\ x\ PE\_ACQ\ x\ PRE\_ROA_{i,t,c} + \beta_2\ POST\ x\ PE\_ACQ_{i,t,c} + \beta_3\ PE\_ACQ_{i,t,c} + \beta_4\ LEVERAGE_{i,t,c} + \beta_5\ SIZE_{i,t,c} + \beta_5\ ASSET\_TURNOVER_{i,t,c} + \beta_6\ CASH\_RATIO_{i,t,c} + \gamma_{t,c} + \delta_{t,c} + \varepsilon_{i,t}$$

This specification is an important validation step for our main finding on investment recovery. In accounting terms, increased investment often decreases short-term *ROA*: the asset base rises while depreciation and other costs reduce net income in the short run. If PE ownership genuinely corrects myopic behaviour, then firms that previously appeared highly profitable due to myopic cost-cutting should experience a decline in *ROA* after the acquisition.

We expect a negative and statistically significant coefficient on the triple interaction term in this specification. This expectation follows directly from the mechanical trade-off between investment recovery and short-term profitability. For firms with high pre-takeover profitability, often inflated by restricting investment, we therefore expect a post-acquisition mean reversion or decline in *ROA*. A negative coefficient would confirm that PE owners are willing to sacrifice

short-term accounting performance to rebuild the asset base and support long-term value creation.

3.4 Sample Selection

For this study, we use the Securities Data Company's (SDC) Platinum database and Screener within the LSEG Workspace for gathering data on PE transitions completed in Sweden between January 1, 2000 and December 31, 2019. This thesis requires both the investor and investee companies to be based in Sweden. While the SDC Platinum database tracks a broad spectrum of PE and venture capital transactions, including Seed, Early Stage, Expansion, Later Stage, PIPE and Secondary Buyouts, we restrict our sample to Leveraged Buyouts (LBOs) and Management Buyouts (MBOs) carried out by financial firms. Unlike VC or minority stake investments, LBOs and MBOs are distinct in that they are executed by financial buyers who acquire a controlling interest in the target firm. According to Kaplan and Strömberg (2009), this control is a condition for our thesis to observe the post-takeover operational changes described in our methodology, since PE needs to be able to implement changes effectively. Another reason for choosing these deals is that they are carried out on companies with stable free cash flows, operational improvement potential, undervalued assets and strong market positions, which means they have a higher chance of having available financial information compared to deals like Seed, Early Stage, and Expansion.

After exporting this data to Excel, we delete all duplicate entries by hand. We identify the local registry numbers of the sample treated firms using CapitalIQ Pro and Retriever, and obtain their corresponding financial data from the Serrano database. To maximise sample size and mitigate survivorship bias, we used an unbalanced panel design. While we preferred firms with extensive financial histories, we kept all firms which had a minimum of 4 years of data prior to and 2 years of data following the investment year, and removed the rest. This resulted in varying observation windows across firms.

To create our control group, we use the Propensity Score Matching method to match our treated firms to firms that have similar characteristics 2 years prior to the investment year but were not acquired by any PE company. We match 2 years prior because we conduct our takeover regression on data 1 year before the investment year.

TABLE 1 Sample Selection

Sample Selection Procedure	*Sample Attrition*	*Firm Observations*
All PE investee companies 2000-2019		1334
Less PE deals not LBO, MBO or MBI	-965	369
Less duplicates	-42	327
Less firms with no financial data for at least 4 years before the investment year	-125	202
Less firms with sparse financial data	-32	170
Less firms that did not match successfully	-12	158

Note: This table displays the sample selection procedure. Transaction data was gathered from LSEG Workspace, local registration numbers were gathered from S&P Capital IQ Pro and Retriever, and financial data was gathered from Serrano. The Serrano database was also used for PSM. Final data contains 158 treated firms and 158 untreated firms, with a total of 2,152 firm-year observations.

To construct our control sample, we merge the Serrano files together from the Serrano database into one parquet file, and flag our treated firms in the file so they do not match with themselves. We then use Python to match the treated firms using 3 confounding covariates: size, leverage and industry, which match for scale suitability, debt capacity and investment cycles, respectively. Diagnostic tests showed that a frugal matching model based on structural determinants achieved better covariate balance than specifications that included performance-based variables such as ROA or cash ratio. This improved balance provides a more reliable comparison. The covariates of size, leverage, and our other variables that we use in the regressions, including our independent variable, were calculated in the parquet file. We filtered out firms with missing or zero values in those columns. This was applied for the period five years before and three years after the investment year. Once the candidate pool was constructed, we conducted the PSM, the results of which are displayed in Table 2 Panel B.

As shown in Table 1, after conducting all of this, we obtained 158 treated firms with 1,069 firm-year observations and 158 matched, untreated firms with 1,083 firm-year observations. We winsorized the continuous variables at the 5th and 95th percentile. While this is more aggressive than the standard 1% threshold, it was necessary since ABN_INV was calculated via a first stage

regression on the entire population of Swedish firms. Given the extreme differences and likely data quality issues, the resulting residuals displayed extreme volatility. Hence, this approach was required to reduce the impact of outliers to obtain reliable results from our regressions.

4. Empirical Results

The following section displays the empirical results of our work. We first present our descriptive statistics to summarise the sample characteristics and correlation matrix to verify that there is no multicollinearity between the variables. Then we turn to the results of our linear probability takeover model, and the findings of the post-takeover model are presented after, supplemented with a validation check.

4.1 Descriptive Statistics

Table 2 Panel A presents the descriptive statistics of our sample. The statistics are provided after winsorizing and include our dependent and independent variables. The sample consists of 158 treated and 158 untreated firms, which were matched to each other, and a total of 2,152 firm-year observations. Table 2 Panel B presents the balance check of the PSM we conducted, and the variables of interest that we calculated at the time of matching.

As seen in Table 2 Panel A, the mean value of *PE_ACQ* is 0.497, which reflects the 1:1 PSM results. The reason it is approximately 0.50 and not exactly is because of the unbalanced panel design, which has more firm-years for the controlled sample compared to the treated sample. *ABN_INV* displays a mean of -0.427 and a median of -0.123. The standard deviation is large, at 3.851, relative to the mean, indicating large differences in investment efficiency across the sample. The distribution appears roughly symmetric, with the maximum and minimum values of 45.653 and -42.053 equidistant from the centre. In contrast, *PRE_MYOPIA* displays a left skew with a mean of -0.447 and a median of -0.136, driven by a left tail of firms with underinvestment histories since the minimum is -17.646.

The financial control variables show that the sample has low *LEVERAGE*, with the mean at 17.8%, suggesting that the firms have unused debt capacity. The mean *ROA* is 6.9%, indicating that the sample consists of profitable firms. The mean of *CASH_RATIO* is 0.387 while the median is 0.134, indicating a right-skewed distribution, with a small number of firms having

TABLE 2 **Panel A: Descriptive Statistics**

Variable	*Obs.*	*Mean*	*Median*	*SD*	*Min*	*Max*
PE_ACQ	2152	0.497	0.000	0.500	0.0000	1.000
ABN_INV	2152	-0.427	-0.123	3.851	-42.053	45.653
PRE_MYOPIA_2	2152	-0.447	-0.136	1.796	-17.646	6.303
PRE_ROA_2	2152	0.078	0.063	0.090	-0.145	0.349
SIZE	2152	11.707	11.635	1.270	9.039	16.216
LEVERAGE	2152	0.178	0.037	0.251	0.000	0.865
ROA	2152	0.069	0.046	0.104	-0.350	0.378
CASH_RATIO	2152	0.387	0.134	0.607	0.000	4.088
AVG_ASSET_ TURNOVER	2152	1.568	1.461	1.177	0.031	4.697

TABLE 2 **Panel B: PSM Balance Check**

	N	*Treated Mean*	*Control Mean*	*Diff*	*t-stat*	*p-val*
Matching Covariates (And Industry)						
SIZE	316	11.643	11.628	0.015	0.091	0.927
LEVERAGE	316	0.107	0.264	-0.157	-5.649	0.0000
Variables of Interest						
ABN_INV	316	-49.741	-1.636	-48.106	-0.976	0.331
PE_ACQ	316	1.000	0.000	1.000	inf	0.000

Note: Table 2, Panel A displays the summary statistics of 2,158 firm-year observations corresponding to 316 firms that were taken over by PE in the time period between the years 2000 and 2019. All variables have the same observations because we omitted firms and firm-years that did not contain information. Panel B displays the balance check of the PSM matching with the covariates of SIZE (defined as the common log of total assets) and LEVERAGE (defined as total long-term debt over total assets), as well as variables of interest that were calculated before matching. Since we matched 158 firms, we have total observations from 316 firm-years.

TABLE 3 Correlation Matrix

	PE_ ACQ	***ABN_ INV***	***PRE_ ROA***	***PRE_ MYOPIA***	***SIZE***	***LEVE RAGE***	***ROA***	***CASH_ RATIO***	***AVG_ ASSET_ TURN OVER***
PE_ACQ	1.00								
ABN_INV	0.02	1.00							
PRE_ROA	0.36	-0.01	1.00						
PRE_MYOPIA	0.06	0.17	-0.01	1.00					
SIZE	0.07	0.01	-0.17	-0.08	1.00				
LEVERAGE	-0.29	-0.05	-0.28	-0.13	0.16	1.00			
ROA	0.23	-0.02	0.60	0.01	-0.12	-0.27	1.00		
CASH_RATIO	-0.14	-0.04	0.12	-0.05	-0.22	-0.01	0.19	1.00	
AVG_ASSET_ TURNOVER	0.31	0.05	0.29	0.14	-0.22	-0.50	0.27	-0.14	1.00

Note: The values represent Pearson correlation coefficients for all numeric variables used in the regression analysis. The colour scale indicates the strength of the relationship, ranging from dark to light.

CASH_RATIO as high as 4.088.

The financial control variables show that the sample has low *LEVERAGE*, with the mean at 17.8%, suggesting that the firms have unused debt capacity. The mean *ROA* is 6.9%, indicating that the sample consists of profitable firms. The mean of *CASH_RATIO* is 0.387 while the median is 0.134, indicating a right-skewed distribution, with a small number of firms having *CASH_RATIO* as high as 4.088.

Table 2 Panel B reports the covariate balance of the matching. The procedure successfully balances the covariate *SIZE* with no significant difference ($p = 0.927$), but a significant difference remains in *LEVERAGE* ($p < 0.001$), with control firms showing higher debt levels.

To mitigate this poor matching, we include *LEVERAGE* as a control variable in all subsequent regressions, ensuring that any remaining variation tied to capital structure does not bias the estimated treated effect. For our main variable of interest, *ABN_INV*, we find no statistically significant difference between treated and control firms in the sample ($p = 0.331$).

Table 3 presents the Pearson correlation matrix for all variables. The correlation between our main independent variable, *ABN_INV*, and the dependent variable, *PE_ACQ*, is very low (0.02), suggesting a lack of a linear relationship between investment deviations and takeover probability. *ABN_INV* also has very low correlations with all control variables, indicating our proxy for myopia captures a distinct variation from standard firm characteristics.

Regarding multicollinearity, the highest observed correlation is 0.60 between ROA and PRE_ROA, which is expected, since past profitability is a strong predictor of current performance. However, according to Kennedy (2008), this remains below the conventional threshold of 0.70 or 0.80. This table concludes that the model covariates are sufficiently independent to produce reliable regression estimates.

4.2 Takeover Model Results

Table 4 presents the results of the linear probability model examining the relationship between our measure of myopia (*ABN_INV*) and the probability of PE takeovers in Sweden. As mentioned in the methodology section, we include the various control variables to mitigate potential omitted variable bias and isolate the specific effect of myopia on takeover likelihood. We estimate the takeover model using a Linear Probability Model (LPM) estimated via Ordinary Least Squares (OLS). Following White (1980), we employ heteroskedasticity-robust standard errors to correct for the inherent heteroskedasticity in linear probability models. We chose this model over a non-linear logit model, even though the dependent variable is binary, to accommodate complicated fixed effects (Year and Industry).

TABLE 4 Takeover Model Results

Variable	*Coefficient*	*Std. Err.*	*t-stat*	*P-Value*
Intercept	-1.1910*	0.6849	-1.7390	0.0820
ABN_INV	0.0051	0.0136	0.3724	0.7096
SIZE	0.0898**	0.0380	2.3623	0.0182
LEVERAGE	-0.0264	0.1736	-0.1521	0.8791
ROA	1.4069***	0.4413	3.1880	0.0014
CASH_RATIO	0.0166	0.0623	0.2670	0.7895
AVG_ASSET_TURNOVER	0.0366	0.0493	0.7411	0.4586
Industry_FE	Yes	***Year_FE***		Yes
R-squared	0.7610	***Adj. R-squared***		0.3977
Firm-year Observations	316	***F Statistic (p-value<0.001)***		51.23

Note: This table displays the results of the linear probability model. It explores the relationship between *ABN_INV* and PE_ACQ with the control variables of SIZE, LEVERAGE, ROA, CASH_RATIO and AVG_ASSET_TURNOVER. Industry FE and Year FE are fixed effects. Robust standard errors are used and noted in columns. Significance levels are denoted: *p<0.1; **p<0.05; ***p<0.01. P-values of coefficients are also noted in columns.

Contrary to our first hypothesis, the coefficient for *ABN_INV* is positive and statistically insignificant (β_1=0.0051 and p-value=0.7096>0.05). We hypothesised that myopic firms would be more likely to be acquired, implying an inverse relationship where the takeover probability increases as investment decreases. However, this insignificant result suggests that PE firms do not systematically target companies based on their investment behaviour.

Our results highlight a clear preference for size and profitability. *SIZE* is positively and significantly associated with PE takeovers in Sweden (β_2=0.0898 and p-value=0.0182). Similarly, *ROA* also shows a positive and statistically significant relationship with PE takeovers (β_4=1.4069 and p-value=0.0014). The large magnitude of the *ROA* coefficient suggests that profitability is a primary driver of PE takeover in the Swedish market. Figure 2 in Appendix 8.3 validates this view as well, since the treated firms have a significantly higher average ROA compared to the untreated firms pre-takeover (t= –3 *to* t= 0).

Other control variables, *CASH_RATIO* and *AVG_ASSET_TURNOVER*, show a positive but statistically insignificant relationship with PE takeovers (β_5=0.0166, p-value=0.7895 and β_6=0.0366, p-value=0.4586). *LEVERAGE* also displays a statistically insignificant but negative value (β_3= –0.0264 and p-value=0.8791). The model displays strong explanatory power with an adjusted R-squared of 0.3977. This indicates that our model explains approximately 40% of the total variation in takeover likelihood. The F-statistic of 51.23 is also highly significant (p-value<0.001), which leads us to reject the null hypothesis that all slope coefficients are simultaneously equal to 0, confirming the overall statistical validity of the model. In conclusion, while our model identifies clear selection criteria based on size and profitability, it fails to reject the null hypothesis for H1, finding no evidence that earnings-based managerial myopia serves as a predictor for PE takeovers.

4.3 Post-Takeover Model Results

To test our second hypothesis, we follow Hribar et al.'s approach and implement a staggered difference-in-differences design using a stacked cohort regression, which reduces negative weighting bias associated with staggered adoption. To account for potential serial correlation of residuals within firms and heteroskedasticity, we cluster standard errors at the firm-cohort level. We exclude the investment year itself, as ownership transitions during this period could distort the estimates. Table 5 reports the results.

As seen, our main variable of interest, the triple interaction term of *POST**x**PE_ACQ**x**PRE_MYOPIA* has a negative and statistically significant coefficient (β_1= –1.278 and p-value=0.028). Our *PRE_MYOPIA* variable is the average score of *ABN_INV* prior to the acquisition. Because our myopia measure is negative when a firm is underinvesting, a negative coefficient means that the most underinvesting firms experience the biggest rebound in investment after a PE takeover. In other words, the worse a firm was before the deal, the more PE ownership pushes its investment back up. The coefficient of –1.278 indicates that for every 1 unit decrease in PRE_MYOPIA score, the post-takeover investment metric increases by approximately 1.278 units. The negative statistically significant coefficient suggests that PE takeovers, when carried out on myopic firms, decrease underinvestment and rectify myopic behaviour and shift to a long-term focus.

TABLE 5 Post-Takeover analysis

Coefficient	*Estimate*	*Std. Error*	*t value*	*Pr(>t)*
POST **x** *PE_ACQ* **x** *PRE_MYOPIA*	-1.278**	0.581	-2.201	0.028
POST **x** *PE_ACQ*	-0.440	0.275	-1.602	0.110
SIZE **x** *PRE_MYOPIA*	-0.272	0.296	-0.918	0.360
LEVERAGE **x** *PRE_MYOPIA*	0.227	0.944	0.240	0.810
ROA **x** *PRE_MYOPIA*	1.055	1.060	0.996	0.320
CASH_RATIO **x** *PRE_MYOPIA*	-0.242	0.215	-1.124	0.262
AVG_ASSET_TURNOVER **x** *PRE_MYOPIA*	-0.281	0.229	-1.226	0.221
SIZE	-0.230	0.263	-0.878	0.381
LEVERAGE	-0.232	0.844	-0.275	0.784
ROA	-0.751	1.997	-0.376	0.707
CASH_RATIO	-0.352	0.465	-0.758	0.449
AVG_ASSET_TURNOVER	-0.194	0.235	-0.825	0.410
Firm-by-Cohort FE	Yes	***Year-by-Cohort FE***		Yes
Firm Year Observations	1838	***R-squared value***		0.345
RMSE	3.191	***R-squared within***		0.108

Note: The table presents the results of the Difference-in-Difference (DiD) regression analysis estimating the effect of PE takeover on post-takeover investment efficiency. The dependent variable is ABN_INV. PRE_MYOPIA refers to the three-year average of abnormal investment prior to the acquisition. Firm-by-cohort FE and Year-by-cohort FE indicate the inclusion of fixed effects. Robust standard errors, clustered by firm, are noted in columns. Significance levels are denoted: *p<0.1; **p<0.05; ***p<0.01. P-values of coefficients are also noted in columns.

The term *POST**x**PE_ACQ* captures the baseline effect of a PE takeover on a firm with 'zero' *PRE_MYOPIA* (a firm investing optimally). The coefficient is negative and statistically insignificant compared to normal thresholds (β_2= –0.44 and p=0.11). This indicates that PE owners do not indiscriminately increase investment for all targets; rather, the investment boost is strictly conditional on the firm's pre-existing underinvestment.

Figure 1 in Appendix 8.3 illustrates this immediate impact of PE ownership on investment intensity. It reveals a sharp reversal from –0.64 to 0.34 in average ABN_INV for treated firms from the investment year (t=0) to the first post-acquisition year (t=1). This spike provides further proof of PE ownership, injecting capital to address underinvestment issues. In contrast, the untreated firms display no such recovery. For treated firms, the subsequent moderation in years 2 and 3 indicates a return to capital discipline, showing that the intervention corrects behaviour rather than engaging in empire-building.

Another thing to note is that the interaction terms between PRE_MYOPIA and all firm characteristics are statistically insignificant (p-values > 0.10). This implies that the cure effect is not driven by the target firm's financial health or capital structure. Whether a myopic firm is profitable or unprofitable, leveraged or debt-free, the PE owner implements the same investment recovery stage.

4.3.1 Validation Analysis

As a validation test, we re-estimate the stacked cohort regression, replacing PRE_MYOPIA with PRE_ROA. This allows us to examine how a firm's profitability is affected under PE ownership. The results are presented in Table 6 in Appendix 8.1.

The validation analysis indicates an inverse relationship between pre-takeover profitability and post-takeover changes for firms with high profitability prior to the acquisition. The triple interaction term of *POST**x**PE_ACQ**x**PRE_ROA* displays a negative and statistically significant result (β_1= –0.489 and p-value<0.001). This indicates that firms that had high average *ROA* before the acquisition experienced a decrease in *ROA* after the takeover event. For firms that had negative *ROA* before the takeover, this negative coefficient implies a positive corrective effect.

Figure 2 in Appendix 8.3 shows this behaviour clearly. Up until the investment year (t=0), the average ROA of treated firms is high, but post-takeover (t+1 to t+3), the treated group's profitability decreases to converge with the untreated sample. This decline shows the effect of the investment spike seen in Figure 1: as asset base expands due to PE intervention, short-term accounting profitability decreases.

The baseline effect of *POST**x**PE_ACQ* is positive and significant (β_2=0.022 and p-value=0.046), which suggests that for firms with 'zero' pre-acquisition profitability, PE ownership has a general profitability improvement effect of approximately 2.2 percentage points on *ROA* of firms.

The coefficients on the control interactions (such as *SIZE**x**PRE_ROA* and *AVG_ASSET_TURNOVER**x**PRE_ROA*) are significant (p-value=0.024, p-value<0.001), indicating that firm characteristics naturally influence the persistence of profitability. For example, larger firms and those with high asset turnover exhibit stronger persistence in their ROA. The triple interaction term remains significant even after controlling for these mean reversion paths. This suggests that the decrease in profitability in highly profitable targets is attributed to PE ownership, rather than firm characteristics.

Regarding control variables that are not interaction terms, *CASH_RATIO* and *AVG_ASSET_TURNOVER* display a positive and significant relationship with *ROA* (p-value<0.001, p-value=0.001). This is consistent with the relationship between asset efficiency and *ROA* and suggests that liquidity in this sample correlates with profitability. Other control variables do not exhibit statistically significant relationships with post-takeover profitability in this model.

Regarding our model fit, the R-squared value of 0.687 indicates that the model explains a substantial portion of the variation in firm profitability. The R-squared within value of 0.253 confirms that our specified variables account for approximately 25% of the variation within firms over time, suggesting that the model is robust and captures meaningful drivers of performance beyond constant firm characteristics.

5. Discussion

The purpose of this thesis has been to examine these two research questions: *Are Swedish firms exhibiting earnings myopia more likely to be acquired by private equity? After PE acquisition, do myopic Swedish firms experience improved long-term investments?* Our results show a clear asymmetry across them. The Takeover model provides no evidence that our main proxy for earnings-driven managerial myopia, abnormal investment (*ABN_INV*), predicts the likelihood of

PE acquisition. In contrast, the post-acquisition analysis revealed consistent, economically meaningful, and statistically significant patterns indicating that PE ownership acts as a corrective force for previously myopic or underperforming firms. Swedish PE targets do not appear to be selected because they signal earnings distortion, yet firms that enter buyouts with suppressed investment or weak profitability display significant performance reversals under PE governance. This divergence suggests that the economic function of Swedish PE lies in the active restoration of long-term value creation, not in screening for potential arbitrage opportunities.

The first component of the empirical analysis tested Hypothesis 1: that firms displaying stronger evidence of earnings-related managerial myopia would be more likely to be acquired by PE buyers. This hypothesis builds directly on U.S. evidence. For example, Aghamolla and Hashimoto (2022) show that real activities manipulation, R&D cuts, and abnormal investment map onto distorted earning signals that sophisticated investors can identify and arbitrage. Hribar et al. (2024) demonstrate that such distortion creates predictable opportunities for PE selection. They argue that myopic managers borrow from the future by cutting long-term investment to boost short-term accounting performance, creating a gap between reported earnings and underlying productivity. If PE sponsors specialise in detecting this gap, firms with abnormal investment should exhibit a higher probability of being bought out. However, the OLS take-over model provides no support for this relationship in the Swedish setting. The key explanatory variable, *ABN_INV*, displays a positive coefficient that is inconsistent with theoretical expectations and is statistically insignificant ($p=0.7096$). Figure 1 portrays this as well, since the pre-takeover average *ABN_INV* is approximately similar for both treated and untreated firms. This implies that, within our sample, the likelihood of PE acquisition is unrelated to whether a firm exhibits abnormally low investments. In other words, there is no evidence that earnings-related myopia, as captured by underinvestment, functions as a systematic selection mechanism for PE acquisitions in Sweden.

The model as a whole is far from uninformative: The adjusted R-squared of 0.3977 suggests that the regression captures meaningful variation in takeover probability, and the F statistic is highly significant ($p<0.001$). Yet this variation is driven by factors other than myopia, most notably *SIZE* and *ROA*, which are the only firm-level covariates with statistically significant coefficients. Their positive signs further reinforce the interpretation that Swedish PE buyers tend to select

larger and more profitable firms. Figure 2 illustrates that ROA is a valid determinant of PE takeovers in Sweden, as the average ROA for treated firms is relatively higher than the untreated firms pre-acquisition. This aligns with Kärnä and Myers (2025), who find that the Nordic PE tends to target financially robust, growth-ready firms, and with Opler and Titman (1993), who emphasise that PE investors favour firms capable of supporting LBOs and MBOs rather than those whose value has been depressed by opportunistic earnings manipulation.

Several explanations exist for why *ABN_INV* fails to predict PE acquisition in Sweden, and these explanations link closely back to the institutional context and prior literature. From a purely statistical perspective, the sample size of 316 firm-year observations in the takeover model is smaller than that used in earlier U.S. studies, which may limit the power to detect small effects. However, the coefficient on *ABN_INV* is not only insignificant; its magnitude is also very small relative to its standard error. Combined with the strong and precisely estimated effects of *SIZE* and *ROA*, this suggests that the absence of a myopia effect is not merely the result of insufficient sample size. A more compelling explanation is institutional. As Brunzell et al. (2011) and Olsson and Tåg (2017) note, Swedish corporate governance is characterised by concentrated ownership, strong internal monitoring, and extensive disclosure requirements. Large blockholders and active owners are typically able to observe and discipline managerial behaviour over a long horizon, reducing the scope for managers to engage in undetected real earnings manipulation. In such an environment, managers may face less pressure to meet short-term market expectations and more scrutiny over long-term investment policies, which makes it harder for myopic underinvestment to accumulate into large, exploitable distortions. When myopia does occur, it may thus be episodic and modest in magnitude rather than systematic and persistent.

This creates an apparent paradox; if Swedish owners are such effective monitors that they prevent agency-driven myopia, why do we observe the underinvestment that requires correction in Hypothesis 2? The answer likely lies in capacity rather than capability. Eklund (2008) argues that Scandinavian firms display a structural dependence on retained earnings, implying they are often constrained by external financing frictions. In this view, firms may not be deliberately suppressing investment; instead, they may simply lack the liquid capital required to find optimal expansion. Therefore, while we cannot empirically distinguish whether the pre-buyout underinvestment was driven by agency-based myopia (intentional) or structural liquidity

constraints (necessity), the result for the PE investors is the same: the signal is ambiguous. Because low investment might reflect structural capital constraints rather than an arbitrage opportunity, PE firms do not use it as a primary selection criterion, preferring instead to screen on verifiable metrics like *SIZE* and *ROA*.

The balance check from the propensity score matching procedure further underlines data and design constraints. Although the matching was conducted on size, leverage, and industry, the treated and control groups still exhibit a statistically significant difference in leverage level, with treated firms being less levered on average (–0.1569, $p<0.001$). We account for this by using leverage as a covariate in all regressions. This ensures that any residual imbalance remaining after matching is adjusted by the linear model, providing a consistent estimate of the treatment effect even if the PSM was imperfect.

As mentioned earlier, regarding our primary variable of interest, *ABN_INV*, we observe no statistically significant difference between the treated and control groups ($p=0.331$). This lack of pre-treatment divergence suggests that earning myopia was not a distinguishing characteristic of PE targets, providing preliminary evidence consistent with our rejection of Hypothesis 1. In sum, Hypothesis 1 is not supported, and the null result is consistent with an institutional environment in which both ownership structure and financing frictions weaken the role of earnings-driven managerial myopia as a selection signal.

In contrast to the null takeover findings, the post-acquisition results provide strong support for Hypothesis 2, which proposes that firms displaying pre-buyout myopia experience larger improvements in investment intensity after acquisition. Here, the empirical patterns closely match the notion of PE as a corrective governance institution. The Post-Takeover Model shows a highly significant and theoretically meaningful coefficient for the interaction term *POST**x**PE_ACQ**x**PRE_MYOPIA*. The coefficient on this interaction is –1.278 ($p=0.028$), indicating that the effect of PE ownership on post buyout investment is strongly conditioned by the firm's pre-acquisition investment behaviour. This interaction captures the restorative mechanism. It implies that the PE intervention is proportional to the deficit: the more severe the pre-takeover underinvestment, the stronger the post-takeover corrective response. This is further corroborated by Figure 1, where we can clearly observe a sharp increase in average ABN_INV for the treated firms in the first post-takeover year, indicating a capital injection due to PE

ownership. We also observe a sharp contraction in average ABN_INV during the investment year, demonstrating the phenomenon identified by Fischer and Louis (2008): managers may suppress investment in anticipation of the buyout to decrease firm valuation, assisting the transaction at a lower price.

For a firm with no evidence of pre-buyout myopia (*PRE_MYOPIA*=0), the relevant effect is captured by the main term *POST**x**PE_ACQ*, whose coefficient is –0.44 but is statistically insignificant. This "base effect" indicates that PE ownership does not systematically raise or lower investment for firms that were not previously underinvesting. Instead, the investment response is asymmetric: firms without a myopic history do not experience meaningful changes in investment, while firms that entered the buyout with negative *PRE_MYOPIA* see their investment levels increase significantly after that position.

This asymmetric pattern is precisely what one would expect if PE in Sweden functions as a corrective force targeting internal resource allocation after the acquisition rather than selecting firms based on myopia before the transaction. This interpretation is also consistent with case-based studies. For example, Sheng and Svenningsson (2014) describe how Nordic PE owners commonly relax short-term performance pressures, redesign incentive schemes, and encourage capital expenditure that had previously been postponed. From a governance perspective, the fact that the base effect of *POST**x**PE_ACQ* is insignificant when *PRE_MYOPIA* is zero suggests that PE does not mechanically increase investment in all portfolio firms. Instead, PE owners appear to differentiate between firms that already invest efficiently and those in which investment has been unduly constrained, whether by myopic managerial choices or by structural financing frictions. The investment model, therefore, supports a nuanced view: Swedish PE is not a blanket promoter of higher investment but is particularly effective in restoring investment among firms where it was previously suppressed.

A potential concern is that this post-buyout increase simply reflects mean reversion; firms with low investment naturally increase expenditure over time regardless of ownership. However, our Difference-in-Differences design explicitly controls for the natural drift by comparing the treated firms against a matched control group. If this were just mean reversion, the control firms (matched on size, leverage and industry) should exhibit the same "bounce back". Instead, the significant triple interaction term indicates that PE-owned firms recover from underinvestment

significantly faster and more intensely than comparable non-PE firms. This confirms that the effect is driven by the governance change, not merely statistical mechanics.

The results of the ROA-based post-takeover model extend this corrective interpretation from investment behaviour to profitability outcomes. In this specification, the dependent variable is *ROA*, and we again exploit an interaction between PE ownership and pre-buyout firm characteristics using *PRE_ROA*. The interaction coefficient *POST**x**PE_ACQ**x**PRE_ROA* is –0.489 ($p < 0.001$), a highly significant effect. This negative coefficient implies that the impact of PE ownership on *ROA* depends on whether the firm was profitable or not before the buyout. For firms that had high and positive *PRE_ROA*, the interaction term suggests that PE ownership reduces the post-buyout *ROA*, and vice versa for firms that had negative *PRE_ROA*.

This result resolves the tension established in Hypothesis 1 regarding PE's tendency to screen for "winners." A plausible interpretation is that for a subset of high-ROA targets, profitability was an artefact of underinvestment, making them appear to be "fake-winners." PE investors appear to recognise this dynamic, initiating aggressive investment programs and asset base expansion that temporarily depresses accounting profitability to reset investment baselines. We can clearly observe this effect in Figure 2, where the average pre-takeover ROA for treated firms is high until the investment year, after which it declines to converge with the average ROA of the untreated firms. This clearly shows a shift from focusing on short-term profitability ratios to a more long-term shift in value creation, possibly due to an increased asset base, even at the risk of declining profitability ratios. Conversely, for firms entering the buyout with low or negative profitability, this dynamic reverses, resulting in substantial improvements in profitability. Ultimately, PE acquires firms to restore long-term viability, whether that entails correcting underperformance or sacrificing short-term ratios to recapitalise firms that had previously underinvested.

Finally, the base effect of PE ownership on *ROA* (captured by *POST**x**PE_ACQ*) is positive and significant (0.022, $p=0.046$), indicating an average increase of 2.2 percentage points for firms with neutral prior profitability. This highlights the dual nature of PE value creation: simultaneous growth investment and operational tightening. Since restoring investment typically depresses ROA through increased asset bases and depreciation costs, a positive base effect suggests that PE sponsors implement operational efficiency that more than offsets these restorative costs.

Consequently, PE appears to generate general performance gains across the portfolio while directing the strongest corrective improvements toward firms that were underperforming most prior to acquisition. This nuance helps reconcile mixed findings in earlier Nordic studies, such as Mörk and Petersson (2012), who report no systematic improvements in ROA and EBITDA margins in Swedish buyouts from 1998 to 2011. Our results indicate that such aggregate averages concealed substantial heterogeneity: PE does not uniformly enhance profitability, but rather combines broad operational efficiencies with targeted corrections for firms entering the buyout with weak financial performance.

6. Conclusion

This thesis was set out to evaluate whether the mechanism developed by Hribar et al. (2024) in the U.S., in which PE firms identify managerial myopia through suppressed long-term investment and subsequently correct these distortions after acquisition, operates similarly in Sweden. By studying PE transactions, mainly LBOs and MBOs, between 2000 and 2019 and applying investment-based measures of earnings-driven managerial myopia inspired by U.S. methodologies, the thesis provides a rigorous test of whether myopic behaviour functions as a selection criterion in a coordinated market economy.

The results show that the Swedish corporate and governance environment fundamentally alters both the detection and consequences of managerial myopia. Firms exhibiting abnormal investments, our myopia proxy, are not more likely to be acquired by Swedish PE investors, which stands in sharp contrast to U.S. evidence in which underinvestment, R&D cuts, and real earnings manipulation serve as clear acquisition signals. Instead, Swedish PE investors appear to rely on entirely different screening criteria, most notably firm size and profitability. The absence of a selection effect is theoretically significant. It suggests that in Sweden, real-activity-based anomalies are not treated by investors as indicators of opportunistic managerial behaviour, but rather as ambiguous patterns embedded in a broader institutional context where constrained investment may reflect financial frictions rather than deliberate myopic behaviour.

Despite this lack of a selection effect, the thesis demonstrates that once firms are acquired, PE ownership functions as a powerful corrective governance. Firms that entered the buyout with suppressed investment exhibit disproportionately strong recoveries post-acquisition. This finding

is validated by our profitability analysis, where high ROA targets show a post-takeover decline in returns. This aligns with the investment recovery hypothesis and confirms that the restoration of asset growth comes at the expense of short-term profitability ratios. This suggests that PE intervention systematically alleviates capital constraints, restructures operations, and realigns long-term strategic priorities.

Taken together, the evidence suggests that Swedish PE functions not as an arbitrageur of myopic opportunities but as a corrective mechanism of structural constraints. They do not select targets based on earnings distortions, likely because the strong institutional environment makes such signals ambiguous. However, once in control, they act to correct underinvestment and recalibrate focus from short-term to long-term. They empower firms that were previously constrained, whether by agency conflicts or liquidity needs, validating the role of PE as a corrective governance institution in the Swedish market.

6.1 Contribution

The novel insight of this thesis is that the selection and correction components of the U.S.-based mechanism can be conceptually and empirically decoupled, and that this decoupling is shaped by the institutional environment in which firms operate. PE firms pick myopic targets because they are the firms that most need corrective governance. This thesis shows that this assumption does not hold outside the U.S. corporate governance structure. In Sweden, where ownership is concentrated, monitoring is internalised, and capital markets are less reliant on short-term earnings signals, the myopic behaviour does not function as a reliable, interpretable, or actionable screening device. The core divergence between the U.S. and Sweden is therefore not a difference in the capacity of PE to create value, but a difference in the information environment that shapes how opportunities are identified. In this sense, the study contributes to the literature by reframing PE as an institution whose governance role is context-dependent rather than universal. PE plays a similar corrective role in Sweden as in the U.S., but the process by which it finds value differs because the information cues available to investors differ.

A second major contribution lies in the interpretation of real-activity myopia measures in a coordinated market economy. Much of the U.S. literature treats abnormal investment as an indicator of deliberate management manipulation designed to inflate near-term earnings.

However, this interpretation assumes a market structure with dispersed ownership, strong analyst pressure, and easily observable earnings surprises, features that are far weaker in Sweden. Instead, Scandinavian firms frequently rely on retained earnings for investment, face external financing frictions, and operate under governance structures that emphasise long-term relationships between owners and managers. In this context, low investment may reflect structural capital constraints or liquidity shortages rather than intentional short-termism. The methodological contribution of this thesis is therefore to show that the same numerical measure, abnormal investment, can signal different underlying mechanisms depending on the institutional environment. This finding has important implications for the international application of U.S. developed proxies. It suggests that empirical measures of myopia cannot be assumed to travel easily across governance systems and must be interpreted with attention to local financing practices, ownership concentration and disclosure norms. Therefore, this thesis shows that the informational content of managerial behaviour depends on the institutional architecture in which it is embedded. In an environment with intense market scrutiny, underinvestment is a behavioural signal; in an environment with constrained external financing, underinvestment is an economic symptom. By demonstrating how the same observable phenomenon can have different origins and meanings, the thesis provides a more nuanced conceptual framework for interpreting managerial decisions across institutional settings.

The third contribution concerns the conceptual refinement of Nordic PE scholarship. Earlier regional studies, such as Mörk and Pettersson (2012), have produced mixed evidence regarding post-buyout performance, with findings ranging from limited improvements in profitability to no significant average impact. However, in light of our results, it can be argued that such combined averages obscure meaningful heterogeneity, with performance improvements being concentrated precisely in those firms that were financially or operationally constrained before acquisition. This insight clarifies why some Nordic studies find no systematic average improvements, because the true effects are conditional rather than uniform. This thesis, therefore, provides a conceptual bridge between the U.S. turnaround-focused PE theories and the Nordic evidence showing that PE also acquires healthy firms for growth and expansion. What earlier work has not recognised is that PE performs both a scaling function and a corrective function, depending on the pre-buyout condition of the firm. This dual role reconciles previously contradictory findings

in the Nordic literature and enhances our understanding of how PE creates value in economies characterised by concentrated ownership.

Furthermore, the conclusion offers a broader theoretical contribution: it shows that the informational content of managerial behaviour depends on the institutional architecture in which it is embedded. In an environment with intense market scrutiny, underinvestment is a behavioural signal; in an environment with constrained external financing, underinvestment is an economic symptom. By demonstrating how the same observable phenomenon can have different origins and meanings, the thesis provides a more nuanced conceptual framework for interpreting managerial decisions across institutional settings.

6.2 Limitations

Despite these contributions, our thesis should be interpreted with several limitations in mind. The first limitation of this study is that we rely exclusively on one measure of myopia, abnormal investment and its averages, while not capturing accrual-based earnings manipulation or market-based indicators. While using multiple measures, like Hribar et al. (2024) did, to capture the different facets of myopia would have been better, the specific data environment of Swedish private firms, characterised by the systemic absence of granular reporting, made us choose between scope and precision. To avoid potentially noisy indicators, we prioritised a single, robust measure of real economic sacrifice. This ensures our findings reflect tangible operational decisions rather than potential measurement errors, even if it comes at the cost of narrowing the examined scope.

Secondly, the PSM procedure was imperfect. The balance check shows that, matching with size, leverage and industry, there was still a significant difference between the means of leverage of the treated and controlled sample. Additionally, the low number of covariates restricts the quality of the match; however, as mentioned earlier, including more measures resulted in a worse balance check. To address this imbalance, we included leverage as a covariate in all analyses. This ensures that our results are adjusted for capital structure differences and decreases the risk that selection bias drives our results.

A third limitation concerns the structure of the panel data. Firms in our sample have uneven observation windows, with some having data 2 or 3 years before the investment year and some having only 2 or 3 observations after the investment year. This reduces comparability across cohorts and limits the precision of dynamic post-takeover effects. Finally, although our models include fixed effects, such as year and industry for the OLS as well as firm-by-cohort and year-by-cohort for the stacked cohort analysis, to absorb heterogeneity and common shocks, we cannot fully rule out the influence of unobserved confounders. Specifically, idiosyncratic industry-specific shocks or strategic selection based on private information could still bias our estimates if they correlate with the buyout and post-takeover investment trajectories.

6.3 Future Research

Future research should build on these insights by developing Sweden-specific measures of managerial myopia, combining real and accrual-based proxies with proprietary data on bonuses, internal budgets, and project-level investment decisions. Another avenue is to explore heterogeneity among PE funds, distinguishing between growth-oriented investors, turnaround specialists, and buy-and-build strategies. Qualitative work examining governance interventions, particularly incentive redesign and capital allocation processes, would also help identify the specific mechanisms through which investment distortions are corrected. Finally, expanding the empirical setting to include other European countries with varying ownership regimes and capital market structures would help determine whether the decoupling of selection and correction observed here is uniquely Swedish or characteristic of systems with concentrated ownership and long-term relational governance.

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8. Appendix

This section lists our appendices.

8.1 Appendix 1: Validation Analysis Table

TABLE 6 **Post-Takeover analysis of profitability**

Coefficient	*Estimate*	*Std. Error*	*t value*	*Pr(>t)*
POST **x** *PE_ACQ* **x** *PRE_ROA*	-0.489***	0.084	-5.818	< 0.001
POST **x** *PE_ACQ*	0.022**	0.011	2.000	0.046
SIZE **x** *PRE_ROA*	0.189**	0.083	2.266	0.024
LEVERAGE **x** *PRE_ROA*	-0.509*	0.271	-1.879	0.061
CASH_RATIO **x** *PRE_ROA*	0.119*	0.066	1.806	0.072
AVG_ASSET_TURNOVER **x** *PRE_ROA*	0.233***	0.060	3.915	< 0.001
SIZE	0.008	0.011	0.725	0.469
LEVERAGE	-0.025	0.022	-1.103	0.271
CASH_RATIO	0.029***	0.007	3.896	< 0.001
AVG_ASSET_TURNOVER	0.030***	0.008	3.478	0.001
Firm-by-Cohort FE	Yes	***Year-by-Cohort FE***		Yes
Firm-year Observations	1838	***RMSE***		0.057
R-squared value	0.687	***R-squared within***		0.253

Note: The table presents the results of the Difference-in-Difference (DiD) regression analysis estimating the effect of PE takeover on post-takeover profitability. The dependent variable is ROA. PRE_ROA refers to the three-year average of return on assets prior to the acquisition. Firm-by-cohort FE and Year-by-cohort FE indicate the inclusion of fixed effects. Robust standard errors, clustered by firm, are noted in columns. Significance levels are denoted: *p<0.1; **p<0.05; ***p<0.01. P-values of coefficients are also noted in columns.

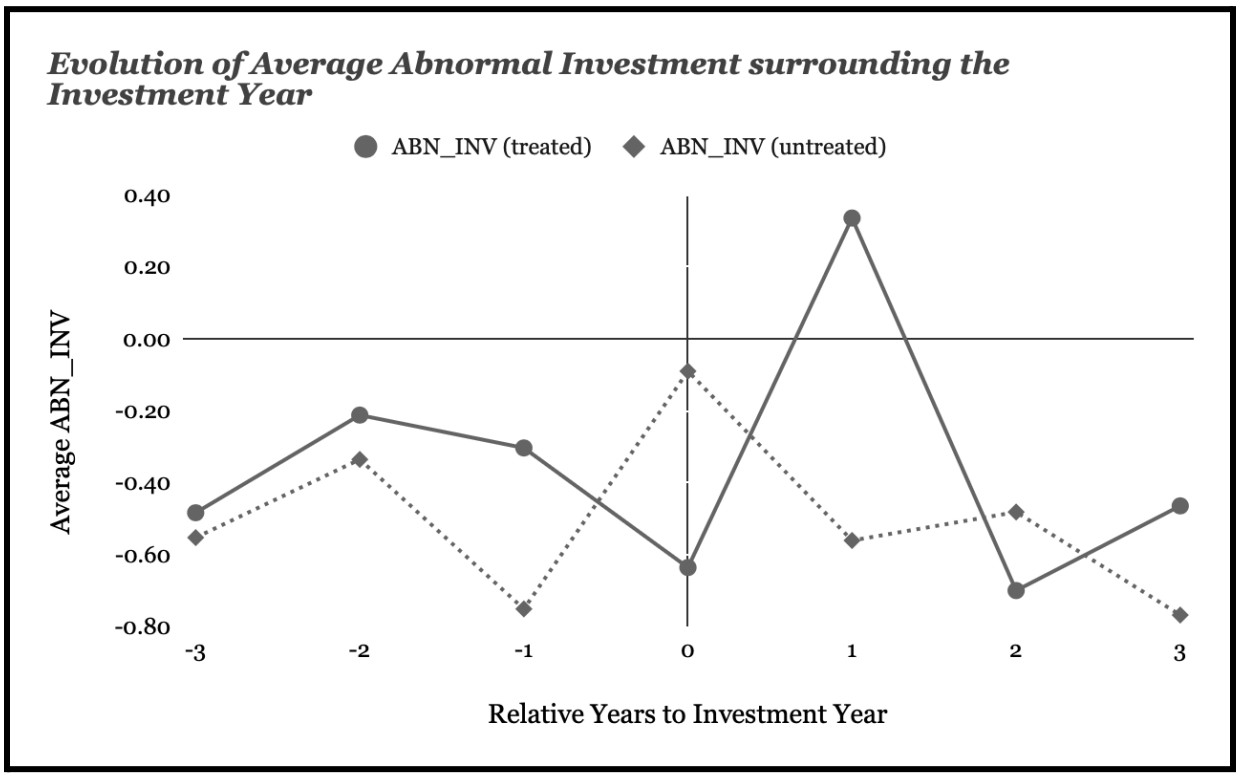
8.2 Appendix 2: Variable Description Table

TABLE 7 Variable Descriptions

Variable	*Description*
PE_ACQ	A dummy variable indicating 1 if it was taken over by PE, and 0 otherwise. (Data gathered from LSEG and SDC Platinum database)
ABN_INV	The deviation of actual investment levels of a firm from the optimal investment levels based on its accounting data. Calculated as the residuals of the regression developed by Choi et al. (2020) for investment inefficiency.
POST	A dummy variable indicating 1 for the period after the takeover event, and 0 otherwise.
PRE_MYOPIA	The average *ABN_INV* of a firm before acquisition.
PRE_ROA	The average *ROA* of a firm before acquisition.
SIZE	The common logarithm ($\log_{10}$) of the total assets of a firm. (Serrano: br09_tillgsu)
LEVERAGE	Ratio of the firm's total long-term debt to its total assets. (Serrano:br15_lsksu & br09_tillgsu)
ROA	The net income of a firm divided by lagged total assets. (Serrano: rr15_resar & br09_tillgsu)
CASH_RATIO	The sum of a firm's short-term investments and cash and bank balances, divided by current liabilities. (Serrano: br07b_kabasu & br07a_kplacsu & br09_tillgsu)
AVG_ASSET_ TURNOVER	A firm's net sales divided by the average of the total assets of the current and lagged periods. (Serrano: rr01_ntoms & br09_tillgsu)
INVEST	A firm's capital expenditure divided by lagged Net PPE. (Serrano: br02_matanlsu & rr05_avskriv)
SALES_GR	The percentage change of a firm's net sales between the lagged and current periods. (Serrano: rr01_ntoms)
CFO	A firm's cash flow from operations in the current period. Calculated as the sum of Net Income and Depreciation less changes in Working Capital (Total Inventory, Trade Receivables, Trade Payables). (Serrano: rr15_resar & rr05_avskriv & br06c_lagersu & br06d_kundford & br13a_ksklev)
ASSET_GR	The percentage change for a firm's total assets between the lagged and current periods. (Serrano: br09_tillgsu)

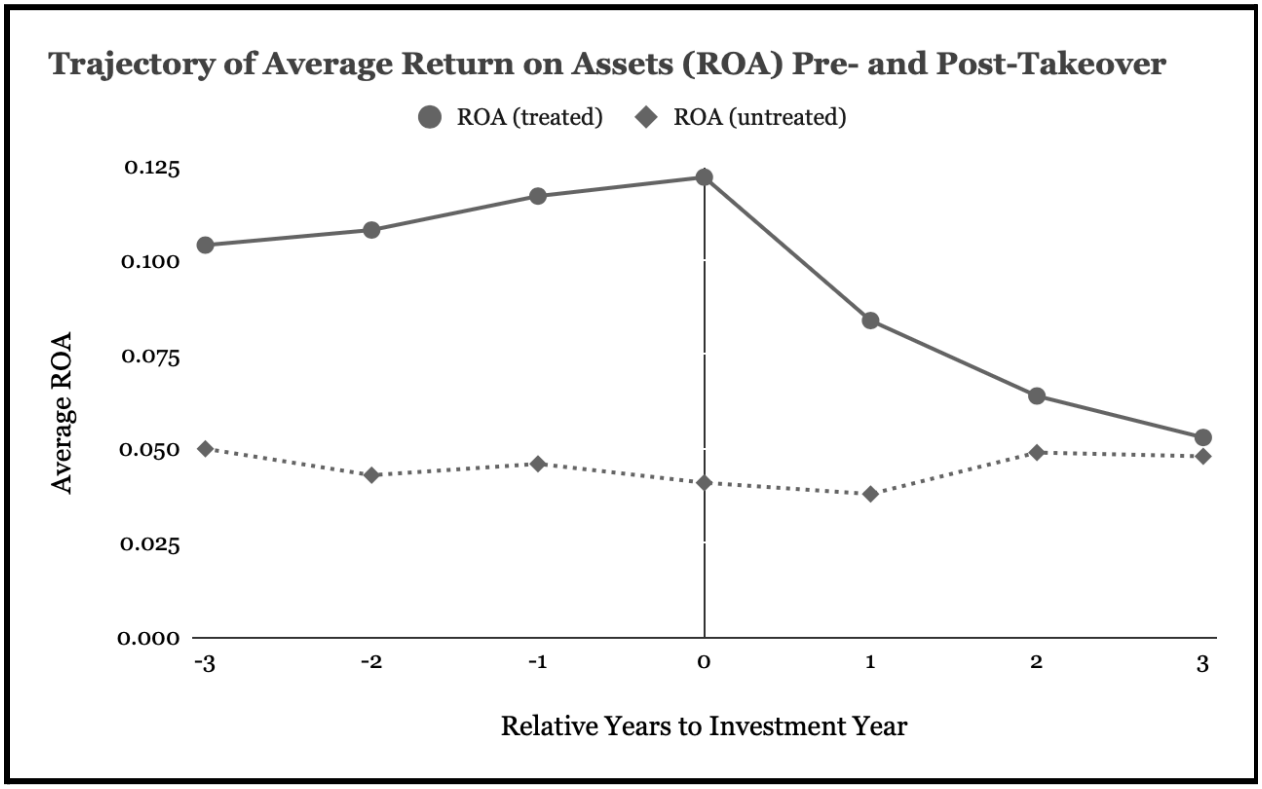
8.3 Appendix 3: Related Graphs

FIGURE 1 Evolution of Average Abnormal Investment surrounding the Investment Year



Note: This figure plots the average abnormal investment (*ABN_INV*) for PE-acquired firms (the solid line) versus the matched control group (dotted line) relative to the investment year (t=0). The trajectory of the solid line shows a distinct spike in average ABN_INV in the first post-takeover year, and then a return to negative ABN_INV in subsequent years. The dotted line shows no such trend and is volatile.

FIGURE 2 Trajectory of Average Return on Assets (ROA) Pre- and Post-Takeover



Note: The figure shows the trajectory of average ROA for PE-acquired firms (solid line) versus the matched control group (dotted line) relative to the investment year (t=0). The pre-takeover data reveals that average ROA is relatively higher for treated firms compared to untreated firms, but the post-takeover data reveals that the average ROA of treated firms declines to converge with the average ROA of the untreated firms.

8.4 Appendix 4: AI Usage Disclosure

Students of the Stockholm School of Economics are allowed limited use of generative artificial intelligence (Gen AI) in our theses, contingent on our disclosing the use. We have used Generative AI with limitations in this bachelor's thesis, specifically Gemini 3 Pro by Google and ChatGPT 5.1 by OpenAI. Gemini 3 Pro was used mainly for limited coding assistance in Python, while both were used to improve grammatical efficiency and readability. They have also been used to locate relevant literature and for further research. All the fundamental research, ideas, hypotheses and analytical structure presented in the thesis have been solely ours; Generative AI tools were not used in the conceptual development or formation of these ideas.

We are aware of the risks that these tools pose, as the outputs can be “hallucinated” or factually incorrect. For this reason, we have scrutinised every output to mitigate the chances of academic dishonesty. We have double-checked all outputs regarding literature and code to ensure that no mistakes have been made when using Gen AI.

https://gemini.google.com/app

https://chatgpt.com/