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The M&A Due Diligence Process in Ukraine vs. Sweden

A Comparative Case Study

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Abstract

An essential part of a successful merger or acquisition (M&A) lies in proper due diligence of high quality. Ukraine has, compared to Sweden, had some struggle with political issues and business culture of lower transparency which affects the transaction costs of M&A. Despite this, there is a large and growing IT industry in Ukraine which is starting to consolidate. With increased M&A activity, the due diligence activity will increase. Currently, there is a lack of academic case studies on the due diligence process in Ukraine which European investors need to conduct better due diligence in the country. For this reason, this study aims to clarify how the due diligence process of a mid-sized IT-company differs when the target company are active in Ukraine compared to Sweden, from a buyer's perspective. To answer this, a case study was performed based on participatory action research in Ukraine and interviews with people with experience with conducting the different types of due diligence. Moreover, the literature review explains the general framework of a due diligence process in Sweden and approximations of the Ukrainian process.

The findings from the interviews, observations and literature study revealed information regarding differences in legal and regulatory considerations, political factors, data reliability and availability and how the due diligence process is affected by the differences. The case study reveals that a consequence of the low transparency and corporate legal structure is that M&A deals in Ukraine are more trust based to cope with the increasing due diligence transaction costs. As a result, the general depth and rigorousness of due diligence in practice in Ukraine are lower. Also, relationships were found to be a considerably more efficient way to access data than conventional due diligence and thus speed up the process in Ukraine. In its essence, the study concludes that a risk-averse buyer in Ukraine should in more detail consider building relationship to reduce transaction costs, understand the corporate structures and how to reduce the risk of corruption and corporate raiding, and keep an extra eye on upcoming governmental changes. All these are types of extra transaction costs and practical implications that a buyer must consider when estimating the cost of the due diligence.

Keywords: M&A Due Diligence Process, Corporate Finance, IT Industry, Transparency, Transaction costs, Sweden, Ukraine.

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Oscar Johansson and Lukas Nyström, *Gothenburg January 2020*

Abbreviations

CA Confidentiality Agreement

CEO Chief Executive Officer

CFO Chief Financial Officer

IoI Indication of Interest

ISA International Standards on Auditing

ISAE International Standard for Assurance Engagements

ISRS International Standard on Related Services

IT Information Technology

LoI Letter of Intent

M&A Mergers and Acquisitions

OECD Organisation for Economic Co-operation and Development

PAR Participatory Action Research

U.S. United States of America

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1

Introduction

In this chapter, the background, problem discussion and the study's purpose are introduced. Then, the research question and academic contribution are presented.

1.1 Background

A M&A due diligence is the investigation done before entering a deal (Howson, 2017). Berk and DeMarzo (2017) argue that adequate M&A due diligence will lead to lower risk, higher probability of successful integration and better economic profit, which is the main purpose of conducting a M&A due diligence. To ensure that a high quality due diligence is conducted, it is preferable to follow a structured process to minimise the risk of missing common pitfalls (Berk and DeMarzo, 2017). The more resources needed to perform the due diligence, the higher the transaction cost before acquiring a target company. In developed countries such as Sweden, the due diligence process is relatively well structured thanks to a high level of M&A activity where professionals over time have devised standardised practices, which in turn have been documented by academia. However, in several emerging markets the process for conducting due diligence is still vague and documentation is scarce, which affects the transaction costs and practical implications. One such example is Ukraine. In an attempt to bridge the gap, this study intends to compare the process in Ukraine and in Sweden. By leveraging the structure and literature that exist on the topic in Sweden and focusing on key differences between the two countries, one can draw useful insights as to how the process works - or should work - in Ukraine.

For European investors seeking investment opportunities in emerging markets, Ukraine is an attractive market to invest in because of the immense growth opportunities, the strategic geographical location, large size and its well-educated and entrepreneurial population (Rojansky, 2014). Furthermore, Ukraine has shown a great will to join the European Union (Kushnirsky, 2014) which would simplify the entry for foreign investors. Moreover, the most recent research on due diligence in Ukraine is done by Novikov, Dubinina and Kuzoma (2018) who describe that the ability to research the due diligence process in Ukraine is today very limited due to the low level of M&A activity in the country and general lack of transparency.

Ukraine has, compared to Sweden, had some struggle with political issues. Besides this, Ukraine suffers from a general lack of transparency and complicated government regulations that further complicates the due diligence process. A report by McGee (2009) showed that today's legal framework in Ukraine has contradictions between the civil code, the commercial code and other legislation, which makes the legal due diligence process more complicated. Furthermore, Kostyuk (2003) argues that several parts of the due diligence is inhibited because of the lack of informational transparency. Similarly, Sysoyev, Sychikova, and Vashchuk (2019) show how the tax system in Ukraine leads to complex corporate structures that complicates the analysis. Moreover, Fedoruk and Sozanska-Matviychuk (2016) find that doing business in Ukraine is associated with an increased risk of bribery and corruption. This risk is illustrated by Transparency International (2018) which ranks Ukraine lower than countries like Pakistan and Columbia.

The IT industry has become the second-largest export service industry in Ukraine, accounting for almost 20% of the country's service exports, and is growing at a fast pace (Sysoyev et al., 2019). There is thus a substantial economic interest to understand the inner dynamics of this industry, both for the national development but also for investors looking for high returns. Furthermore, since most of the IT service companies are still mid-sized, with around 50-500 people working for them, the industry is currently undergoing a large scale consolidation with high levels of M&A activity (Sysoyev et al., 2019). On these grounds it is thus interesting to investigate how to successfully merge and acquire other companies within the same industry in order to capture the growth and potential economies of scale that are present. Investors or policy makers that wish to analyse this market would thus benefit from understanding how the due diligence process works.

1.2 Problem Discussion

There is both a practical and an abstract problem at hand. The practical problem is that it is critical for international investors to have a full understanding of the due diligence process in Ukraine to be able to make successful investments in Ukraine. This is important from a business perspective in general and is further enhanced in this specific case since Ukraine is in a great need of foreign investments to promote growth (Motkin, 2019). According to Motkin (2019) the president, Volodymyr Zelenskyy, even urged foreign investors to chose Ukraine. The abstract problem, is that in order to optimise and fill the gaps in the due diligence process in Ukraine there is a need to identify the gaps, which this report intend to highlight. This problem is important because Ukraine has had plans of joining the EU since early 2000 (Mahony, 2005) but they are still being questioned to join because Ukraine still fall short with respect to economical and policy criteria (Temnycky, 2019). By being in line with international standardised processes, the chance for Ukraine to succeed increases.

Along the same line a study by Novikov et al. (2018) explains that there is a need for more case studies on the due diligence process in Ukraine. The authors explain

that the due diligence process is usually a complicated process in western countries and even more complicated in a country with a low level of transparency and a low volume of M&A activity to research, such as in Ukraine (Novikov et al., 2018). Fedoruk and Sozanska-Matviychuk (2016) further report that the number of M&A deals and their size have shrunk compared to pre-2014 activity levels due to the war in Donbass. This lack of transparency and low level of deal activity in Ukraine has lead even domestic researchers to study the due diligence process with the help of international case studies (Novikov et al., 2018).

Generally, most steps of the due diligence process are similar to international standards based on the research by Novikov et al. (2018), and therefore it is most beneficial for international buyers to understand the differences in the due diligence process between Ukraine and a westernised country. To identify process differences between Ukraine and a westernised country, it is beneficial to compare the Ukrainian due diligence process with the process in a country with a high level of M&A activity and high level of transparency. Based on this and considering the authors' origin, the comparison country is Sweden, since it is a country with among the highest transparency in the world (Transparency International, 2018) and a strong underlying M&A activity (Gezelius, 2019).

As previously mentioned, the IT industry is one of the largest industries in Ukraine and is currently consolidating. Therefore IT companies need to consider if they should start growth through acquiring others or let others grow through acquiring your company. As a result, there is an extra need to understand how the due diligence process is within the IT industry. Even if this industry is one of the most internationalised industries in Ukraine, there are still several differences within the industry as indicated by Novikov et al. (2018), and this study aims to further build on their findings. The most relevant companies to investigate are the mid-sized companies since they are currently over-represented and will most likely comprise the bulk of deals in the near future (Sysoyev et al., 2019). The study wants to highlight what is most relevant for as many companies as possible, for the highest research impact.

1.3 Purpose

The purpose of this report is to clarify how the due diligence process differs in Ukraine compared to Sweden, in terms of transaction costs and the practical implications.

1.4 Research Question

This study's main research question is: From a buyer's perspective, how does a M&A due diligence process of a mid-sized IT-company differ when the target is active in Ukraine compared to Sweden?

To answer this, a comparative case study was performed which analysed the acquisition of both a Ukrainian and a Swedish target. Together with comprehensive literature study, onsite observations and interviews with key stakeholders was conducted to identify differences that were not apparent in the available research and literature. In its essence, the study concludes that a risk-averse buyer should in more detail, than a buyer in Sweden, consider to build relationship, understand the corporate structures and governmental changes and how to reduce the risk of corruption and corporate raiding when doing mergers or acquisitions in Ukraine. These findings provides international investors in Ukraine with a more structured approach when performing due diligence, mitigating the risk of missing critical steps that would not have been necessary in their domestic market conditions.

1.5 Academic Contribution

This whole study builds on the Ukrainian due diligence process research done by Novikov et al. (2018) to further clarify how the process differs from more developed countries such as Sweden. Novikov et al. (2018) state that not even Ukrainian academic researchers had been able to study the due diligence process in Ukraine due to the insignificant number of case studies in Ukraine. The process that Novikov et al. (2018) have developed for the due diligence process is far from comprehensive and this study aims to further elaborate on the due diligence process by comparing two case studies, one in Sweden and one in Ukraine. These case studies gives a new perspective on how the due diligence process differs in Ukraine and in Sweden. Overall, the due diligence process is in most parts similar in both countries and this report has therefore chosen to focus on the differences. Moreover, the results of the Novikov et al. (2018) study reveals that Ukraine is in need of a regulatory framework guide for a due diligence process. Therefore, there is a demand for more relevant case studies within Ukraine on the due diligence process. This will contribute to the academic understanding which can of help for companies and policymakers active in the region.

2

Methods

In this chapter, the method approach will first be described. After that, the case study and data collection methods will be explained. Lastly, a description of how the analysis has been performed and presented is laid out.

2.1 Method Approach

In this comparative case study, qualitative methods have been used. The study relies on data collected from multiple sources using multiple methods. According to Eisenhardt (1989) and Denscombe (2017) this approach, called triangulation, strengthens the findings by corroborating data with multiple independent sources. The study involves both qualitative and quantitative data, with a natural emphasis on the former due to the lack of available quantitative studies that have been performed in Ukraine, as discussed by Novikov et al. (2018). Eisenhardt (1989) endorses the use of both types of data and argues that significant synergies can be extracted by using such an approach since the quantitative data strengthen the qualitative findings by corroboration with hard facts. Eisenhardt especially argues that this dual approach is beneficial when performing a case study, since the method of verification by quantitative data forces the researcher to focus on facts and prevents him/her from "being carried away by vivid, but false, impressions" during observations.

Well designed research sets boundaries and guides the research to obtain results that are rigorous, reliable with high validity and places a good basis to draw conclusions and bring the academic understanding forward. According to David and Sutton (2011), it is favourable to adopt a constructionist framework in research that is designed to provide understanding - such as in the case of our study. Furthermore, on the ontological position of constructionism, Bryman and Bell (2007) state that knowledge is to be viewed as indeterminate. This means that all findings are subject to some degree of subjectivity. One should thus be aware that the results and findings of this paper are not to be mistaken for objective facts, but rather our version of the subjective reality.

Moreover, the method for this research is based on a qualitative approach, which David and Sutton (2011) argue is beneficial when the study's focus is on trying

to registering the meaning and implication of the data and to effectively priorities the methods used, such as unstructured observations and interviews. Additionally, a qualitative research approach has the advantage of being easier to customise according to Denscombe (2017), which is suited for this exploratory study. With that said, there are also down sides with relying too much on qualitative data. As discussed above, Eisenhardt (1989) argues that it is beneficial to corroborate the findings with quantitative supporting data. An overall critique of the study is thus the relatively low amount of quantitative data that has been used. Future studies on this topic would thus benefit from focusing on collecting more quantitative data to support the findings in this paper.

When conducting the interviews and observations, the research was done with a logical approach where the differences between the people and the objects of the natural sciences need to be respected, which Bryman and Bell (2007) describe as being an important part of the interpretive paradigm. Furthermore, this study has used an inductive research approach to reach and construct the study's results and conclusions. Building on this, Sackmann (1992, referenced by Bryman and Bell, 2007), suggests that her inductive research could be used as a hypothesis for future deductive research. In like manner, the results of this inductive study can be used as a hypothesis when trying to do further research on how to mitigate the process differences and anomalies.

The development of the literature chapter has been an iterative process and it is important to note that the emerging interest and knowledge of the research area has potentially coloured the subjective selection of sources for the theoretical framework, as discussed by David and Sutton (2011). However, this research approach also aligns with the way of connecting grounded theory thinking in the research process, as prescribed by O'Gorman and MacIntosh (2015).

2.2 Case Study

In this section, the background, justification and limitations of the case study are presented.

2.2.1 Case Study Background

As a part of the empirical research, a case study of two acquisitions was conducted. The study closely followed the acquiring party, Beetroot AB, and examined their due diligence process in the acquisition of one Swedish and one Ukrainian target. The Swedish target was Aducera Consulting AB and the Ukrainian target was Onlinico, LLC (Aducera Consulting AB, 2019; Onlinico, LLC., 2019). The findings related to the observed behaviour in this case study was then analysed together with the theoretical framework to draw conclusions related to the research question.

Beetroot AB is a private Swedish IT-consultancy firm with its headquarter in Stockholm but with the majority of its operations spread across several local offices in

Ukraine (Beetroot AB, 2019). An initial interview with the CEO and Co-Founder, Andreas Flodström, revealed that after consistent organic growth since their founding in 2012 they have almost 400 contracted IT-consultants (A. Flodström, personal communication, November 8, 2019). He further explained that to allow for faster growth they have since the spring of 2019 devised a strategy for non-organic growth through acquisitions, mainly by integrating competitors in Ukraine. They have considered four previous targets, but they have all been turned down by Beetroot AB before reaching final negotiations. This case study only focused on the acquisition of Onlinico, LLC. and Aducera Consulting AB, but meaningful insights from these previously failed acquisitions add additional depth to the study. The Ukrainian target of the acquisition, Onlinico, LLC., is an IT-consultancy firm located in the city of Kremenchuk, Ukraine. They currently have contracted 31 IT-consultants, according to Flodström. The Swedish target, Aducera Consulting AB, has similar operations but are purely based in Stockholm. They currently have 8 IT-consultants contracted, according to Flodström.

2.2.2 Justification and Limitations of Performing a Case Study

The academic research documenting the due diligence process in acquisitions in Ukraine is lacking, meaning that it is hard to analyse the subject through only conventional literature reviews according to Novikov et al. (2018). Novikov et al. (2018) further argue that more extensive domestic case studies must be conducted to gain a more thorough understanding of the topic. They argue that even though there is more research available on similar cases in foreign markets it is not sufficient enough to draw conclusions on how these would correlate with the Ukrainian market conditions. In the specific case of this research question, it is thus well justified to complement the research by doing a case study. With that said, it is important to consider how the case study is performed. Yin (2014) argues that performing case studies is a very challenging task, but if handled correctly it can lead to solid academic contributions. Due to the possible risks when performing a case study, such as if it is too narrow or biased, his view is that it is a method that should primarily be used when no other method suffices - which in this case is justified by the work of Novikov et al. (2018). Yin (2014) especially advocates the use of case studies as a complementary method, used to capture the contextual conditions. We follow this advice by complementing the case study with other sources of data, as described below, thus mitigating the risks that Yin points out.

Further justification for using a case study approach, in general, is given by Flyvbjerg (2006), who argues that any scientific research that is not supported by examples is an inefficient one. Flyvbjerg further argues that while a research approach involving a larger sample can provide more breadth, the smaller cases studies provide invaluable depth information. In the case of the research question at hand, the breadth of the field is relatively wide, exemplified by the due diligence process already designed by Novikov et al. (2018) for the Ukrainian market. However, Novikov et al. (2018) themselves admit that the process does not provide sufficiently detailed insights and

needs more depth. Flyvbjerg (2006) argues that a case study can uncover these kinds of academic blind spots because it allows the researcher and the researched to come closer, and thus revealing more in-depth information. Again, this justifies the usage of a case study to answer the research question.

Having justified the usefulness of the method, it is important to consider the limitations and risks involved. Yin (2014) emphasises that any case study must focus on rigour, validity and reliability to assert its academic contribution. He argues that one way to assert this is to do the case study with a predefined theoretical model in mind at all times, thus making sure that more observations can be categorised and correlated to predefined hypotheses. Having a model in mind thus enhances the researchers' ability to identify key observations (Yin, 2014). The drawback of such an approach is that it might introduce a cognitive bias due to that the author tries to explain too much of the observed behaviour with said theory (Diamond, 1996).

Flyvbjerg (2006) provides a different view of the problem of bias. He refers to multiple studies that have indeed contradicted their initial hypothesis and further argues that all qualitative methods are subject to some form of subjectivity - not just case studies, as it is often unjustly accused of. Flyvbjerg further argues that the subjectivity in a case study might even be lower than in other more shallow methods because the researcher gets close enough to the subject of study to be "talked back" to. We have thus designed the case study in such a way as to get as close as possible to the subject by following them day and night for a week. Not only in a business sense but also more informally by sleeping at their office, joining them for social events and sharing all meals together. The ambition was that the subject would feel comfortable enough to reverse any bias by being blunt if faulty conclusions are drawn. This was indeed the case later when drafts of the paper were sent for review, which suggests that the method was successful. Another design strategy to cope with bias throughout this study was that all observations were conducted independently. Our individual views were not summarised nor shared until after the observations thus creating two independent samples.

Flyvbjerg discusses whether findings from a single case study can indeed be generalised to a larger population. What he finds is that it - like most things - depend on the nature of the findings, but that in general one should not be overly pessimistic about the generalizability (Flyvbjerg, 2006). He further argues that even though some findings might not be representative for the larger population, and should thus not be presented in such a way, the exemplification still provides scientific value. All findings in this study have thus been carefully considered, in regards to how general they are, before drawing any conclusions that are viable for the entire population. Another related notion that Flyvbjerg discusses in his article is the topic of white and black swans. He argues that case studies are a useful method for identifying black swans - that is, an object that does not fit the current theoretical predictions as opposed to white swans. This is a fact stemming from the definition of theory verification: it suffices to find a single case that does not fit the model to reject it. Even though the small scope of a case study might thus be hard to generalise as a

white swan, it has a powerful effect in that it might identify black swans. This point made by Flyvbjerg is especially useful in this case since the research question is explicitly directed towards identifying processes in Ukraine that does not correlate to the theory, which mostly describes the Swedish setting.

Yet another critique of case studies that is discussed in Flyvbjerg (2006) is the hardship of properly summarising the findings from a detailed case study. Flyvbjerg references the work by Peattie (2001), in which she warns against trying to synthesise findings too much. Peattie argues that too much of the practically useful information is lost if the author attempts to create an overly simplified conclusion of the findings. She further argues that the true strength of case studies is in the details themselves rather than the shortlist of summarised findings. Flyvbjerg further argues that by leaving the findings more detailed in the report, this allows for readers of different backgrounds to draw different - valuable - conclusions. He concludes that the story in itself is what holds value. This remark caused us to search for, and not omit, small nuances when conducting and analysing the case at hand. Further, it meant that any synthesised findings were backed up by concrete examples.

2.2.3 Justification of the Chosen Study Object

An initial justification as to why the research was focused on Beetroot AB is their geographical presence in both Ukraine and Sweden, thus providing on-site access to both market and cultural conditions. Furthermore, they were in the process of acquisitions in both markets, meaning that differences in the due diligence process within the same firm and with the same individuals could be observed. This has the upside of removing the differences that would occur solely due to a change of key agents.

The study object focuses on the IT-industry in both markets and is thus in a position to shed light on the posed research questions. Moreover, they are of a representative size that reflects a majority of firms in the industry in Ukraine, according to an industry M&A report by Sysoyev et al. (2019). Further, the industry report reveals that Beetroot AB is representative in terms of age since they were founded 7 years ago and a majority of firms in the industry in Ukraine are between 5 and 10 years old. Lastly, their business model based on outsourcing represents a majority of operations in the industry, according to Sysoyev et al. (2019). Fedoruk and Sozanska-Matviychuk (2016) further describe that the M&A activity in the IT industry in Ukraine is currently high, but involves mostly small deals in the range of 5-10 million USD. This means that the studied deal in this paper is of a representative size and the academic interest in the field is high. All of these arguments lead us to conclude that the chosen case study object is representative for the topic and any findings are thus more likely to apply to the industry as a whole.

Related to the generalisability of a case study is the topic of how to select the study object. Besides the very practical justifications provided above it is possible to analyse the selection in more depth. If the subject is chosen carefully, it is more likely

that the findings will correlate to the population according to Flyvbjerg (2006). This is especially true in the case of this paper, since the total amount of possible study objects is highly limited, as discussed by Novikov et al. (2018). This means that it is not feasible to rely on statistically large sample sizes, which would reduce bias, but instead, the researcher has to do an informed decision when selecting an object that is expected to reveal relevant findings. Flyvbjerg (2006) further argues that it is often more interesting to study deviant or extreme case objects since these portraits more of the special circumstances and will likely include more involved actors. These special cases, he argues, hold a higher potential for explaining the symptoms of the findings. This view is supported by Eisenhardt (1989), who argues that because of the by nature a small set of potential study objects, it is preferable to study an extreme or polar opposite case. She argues that such a theoretical sampling will enhance the chance of making observations that can strengthen a theoretical view of the topic. This leads to one of the shortcomings of the chosen study object since there is no clear justification as to why Beetroot AB would constitute an extreme case. Arguably, as discussed above, they are even relatively average. This has the upside of simplifying generalisation, but as Eisenhardt and Flyvbjerg discuss the research might have been more enlightening if a different case was chosen. Future studies could advantageously try to leverage this, but as Novikov et al. (2018) discuss it is hard to be selective in this area due to the limited population size.

A concluding remark concerns the experience of the study object. Beetroot AB is after all an IT-company, not a firm specialising in acquisition strategies. The insights provided in this research are thus more closely motivated to mirror the behavioural process when industry agents act within the same industry. Different findings might have been revealed if for example a PE-firm or an investment bank active in both markets had been analysed since they have a different theoretical background. The findings of this paper are thus limited to describe acquisitions within the same industry in which agents can leverage their previous know-how. Further, only acquisitions by mid-size firms have been analysed, meaning that further research must be done before generalising findings to larger acquisitions. Lastly, the fact that Beetroot AB has gone through four previous due diligence processes, without reaching final negotiations, and has the outspoken strategy to perform acquisitions means that they have some previous knowledge. They are thus familiar with at least basic conceptual due diligence frameworks. The CEO further explained in the interview cited above, November 8th, that they have been given continuous advice from experts in the field through their professional and personal network. All together this provides additional strength to any findings in this paper because it proves that the key personnel are relatively well informed on the topic and that the acquisitions are not done hastily and without careful consideration. Further, since it is a comparative analysis several agent specific effects are cancelled since the same actors are involved in both the Swedish and the Ukrainian acquisition.

2.3 Data Collection

In this section, it is explained what primary and secondary data collection methods that were used in the research. Since this study is a case study based on a participatory action research method, interviews and observations have been key data collection methods to reach a sufficient depth and understanding of the issue.

2.3.1 Data Types and Used Tools

This research has mainly been based on primary data collection through participatory action research and interviews. The research also used secondary data, but mainly to support the action research findings and to build a general understanding of the subject while creating the literature framework that ensured research with the right approach and relevant questions to arrive at interesting conclusions. David and Sutton (2011) viewed research as a sort of production that requires many sorts of tools and gadgets. In this research, physical objects like cameras, computers and recording devices were used. As also mentioned by David and Sutton (2011), these tools were used to stimulate and filtrate experiences and actions to create material that can be registered as data. Moreover, this research will mainly collect primary data since the lack of availability of relevant secondary data.

The articles, journals and books used in the literature study found through searching on Google Scholar, local libraries and looking through databases such as Business Source Premier and other general Gothenburg University Library databases. Other sources of information such as company websites and relevant blog posts have also been used. During the literature study, key search terms used to find relevant literature have been: "Due Diligence Process", "Transparency", "Ukraine", "Emerging Markets" and "Asset Deal". Several combinations of the mentioned key search terms together with synonyms of the keywords have been used in the literature study.

2.3.2 Participatory Action Research

Besides conventional literature reviews and interviews, this research adopted a data collection method that involves on-site observations, so-called participatory action research - PAR. According to David and Sutton (2011), PAR is an extension of evaluation research. A prerequisite of action research, according to both David and Sutton (2011) and MacDonald (2012), is that the researcher tries to promote the goal of the ones that the research is about. In this case study, both the studied organisation and researchers wanted to understand how due diligence process differ in Ukraine to learn and understand how to further improve the due diligence process. MacDonald (2012) argues that this joint goal produces a mutually beneficial better result and is necessary for any successful study using this method. Everyone involved and policymakers could benefit from results, by afterwards trying to either remove the differences by changing the standardised process to include the differences in the risk assessment. With this in mind, having such a clear picture of both the goal of the organisation and policymakers makes it easier to justify this research methodology

only if the researcher found it reasonable to promote these goals (David and Sutton, 2011), which was the case in this study.

Along the same lines, David (2002, referenced by David and Sutton, 2011) states that it is important to remember that people at the top of organisations do not view things in the same way as people lower down because organisations are not homogeneous. To cope with this issue, the study included people from all levels of the organisation and with different focus and goals. On a similar note, as discussed by Denscombe (2017), it is necessary to consider how the researcher presents himself to the respondents. He argues that this impacts the respondent's answers as well as its willingness to answer. While it has to be clear to the respondents that the researcher possesses significant know-how of the topic, he/she must not be perceived as too distant nor high-minded. Denscombe further describes that it is good practice to be as neutral as possible when performing the observations in order to capture the true dynamics and limit bias. This had the effect that we took a fly-on-the-wall approach to all observations in this research but made sure to present ourselves as research students to provide a sense of qualification.

Including PAR as a method has the potential to provide very detailed qualitative insights that are hard to find in more formal settings, as it focuses on the "voice and everyday experiences" (MacDonald, 2012). This includes subtle behaviour related to corporate culture and relationships. Since an initial hypothesis to this study was that the due diligence process in Ukraine is more relationship-based than in Sweden, it was necessary to get close to the people involved in the processes which motivates the use of PAR. The observations aimed to extract insights into the soft values involved in the process that are not reflected in the financial or other written documentation. As described by MacDonald (2012) PAR has the additional benefit of empowering the research subjects by making them feel like a part of the process, thus allowing for greater cooperation than other methods such as conventional interviews by building a sense of trust. MacDonald further emphasises that even though PAR has significant upsides, some downsides have to be considered. One of these, she argues, is that it is time-consuming for both the researcher and the researched. It is thus necessary, to keep the subjects involved and interested, to limit the extent of the study as much as possible. The observations performed in this study have thus been relatively brief to mitigate the risk of respondents losing interest.

The action research in this study is based on several observations, mainly a trip to a target company in Ukraine where the researchers followed a team on their on-site due diligence trip. After continuous contact with Beetroot AB throughout November to provide a solid understanding of the background of the strategy and the deal, we visited Beetroot AB during a week in mid to late November in Ukraine. The first, and last, days of the visit took place in Kyiv and only involved contractors and management of Beetroot AB. During this time observations related to the internal process were made and extensive interviews with key personnel were conducted to deepen the understanding. Most of the visit took place in the city of Kremenchuk. It involved top management from Beetroot AB and Onlinico, LLC. as well as con-

tractors from Onlinco, LLC. During these days we took part in all negotiations between the parties, reviewed the Letter of Intent and observed how Beetroot AB performed the general on-site due diligence. This involved, amongst many things, assessment of tangible assets and contractors capabilities as well as analysing the interaction between management and individuals of the target. Emphasis was placed on observing the soft values and human interactions. Brief informal interviews were conducted with top management of the target to get continuous feedback on how they perceived the process.

Parts of the interactions in Kremenchuk took place in Russian and imposed a significant language barrier for us, which caused some nuances on the relationship bonding to fade. However, the critical conversations that directly related to the due diligence process were all in English. Practically, we took individual notes during the day and discussed and synthesised the findings jointly in the evenings while preparing for the next day. The notes followed the structure prescribed by Denscombe (2017) by including three distinct parts: Facts, significant event and personal interpretation.

2.3.3 Interviews

In this section, the interview design is presented together with information about the interview respondents. Another means of data collection in this research has been interviewed. The objective of the interviews was primarily to extract information about the topic that is not publicly available but also to corroborate findings from other sources. As discussed by Eriksson and Kovalainen (2008) unstructured, or semi-structured, interviews allows the respondent to steer the conversation towards what they find to be the most important. This has the positive upside that the interviews can reveal subtopics that the researcher had not previously thought about, thus adding more breadth to the study by leveraging the broader scope held by the respondent. Eriksson and Kovalainen further argue that the unstructured approach thus has the potential to reveal a more detailed image of the study object. Further endorsement of taking a less structured approach is given by David and Sutton (2011). In their book, they describe that an inductive study can benefit from unstructured methodologies in general because they are of a more exploratory nature, rather than the deductive motive of producing dogmatic findings. Since this study, as discussed in previous sections, indeed follows an inductive approach and aims to identify differences between the due diligence process in Ukraine and Sweden it is thus well motivated to do unstructured, or at most semi-structured, interviews. All interviews performed have thus been of this nature. A list of the interview respondents is presented in Table 1 below.

2. Methods

Table 1 - Interview respondents ranked by first name.

	Name	Title	Company
1	Andreas Flodström	CEO & Founder	Beetroot AB
2	Andriy S'omak	Co-Founder & acting CEO	Onlinico, LLC.
3	Arvid Joelsson	Head of Operations Nordic	Beetroot AB
4	David Herdenberg	Project Manager	Beetroot Academy
5	Emma Olnäs Fors	Partner M&A	Mannheimer Swartling
6	Fredrik Adolfsson	Investor & CEO	Beetroot & Aducera
7	Ivan Khomichuk	Project Manager	Beetroot AB
8	Joris Hoogerdijk	CFO	Beetroot AB
9	Semyon Bondarenko	Sales	Beetroot AB
10	Angel Investor A	Angel Investor	Undisclosed
11	Yurii Vatsyk	Legal counsel	Beetroot AB

Furthermore, the study has involved interviews with respondents with different backgrounds and focus areas. Each of the respondents were only asked questions related to their specific expertise. The reasoning behind this is to provide insights from multiple angles on the same topic. David and Sutton (2011) argue that the downside of this approach is that it is more demanding in terms of analysis of the findings, but it has the obvious upside of providing more in-depth answers. They furthermore describe that such an approach requires the interviews to be less structured and less standardised. A limitation of the study is that a small number, or at times even singular, respondents from each focus area were interviewed. This has the effect that a limited corroboration of facts, given that specific angle, could be performed. The study attempts to mitigate these shortcomings by collecting data from other sources than interviews, but future studies would benefit from interviewing more respondents that are responsible for answering each sub-part of the research question.

Ritchie and Lewis (2003) discuss more practical matters of performing an interview to get satisfactory results. They argue that it is important to put all analysis aside during the entire course of the interview. They support this by two arguments, the first being because it might limit the interviewers' ability to focus on what is being discussed presently. Furthermore, and perhaps more importantly, they argue that it might otherwise cause the interviewer to jump to hastily conclusions that would colour the entire interview. This advice has been integrated into all interview sessions in this research in the sense that the interviewers have focused on mainly listening, allowing the respondent to steer the conversation. The only minor steering practices that were used by the interviewers were continuous follow up and summarising, which Denscombe (2017) argues mitigates the risk of wrongful interpretations. Furthermore, no analysis with regards to the theoretical framework was performed during ongoing interviews. This approach was thought to produce answers that more closely mirrored the respondent's reality, since they were allowed to respond in their own jargon rather than being coloured by the interviewers' terminology. The downside of leaving much of the analysis for later is the possible risk that valuable insights that need further questions might arise after the interview was over. This phenomenon was indeed observed throughout the study, but it

was mitigated by allowing multiple sequential interviews with the same respondent should it be necessary. Each of the two interviewers - there were always two - summarised and drew parallels to the theoretical framework first after the session was over. They did so individually at first in order to create two less dependent samples, before finally synthesising the collective observations.

2.4 Presentation of Results and Analysis

The report follows the suggestion described in Oxbridge Essays (2018) to present results and analysis together if it seems preferable. The findings of the report are heavily rooted in the comprehensive theoretical framework and have been confirmed or been in line with the conducted case study. The presented findings will focus on Ukraine and the processes there. This is justified because the study is directed towards an audience that consists of international investors, active in markets with similar conditions as in Sweden, which makes it more relevant to mostly focus on how the Ukrainian process differ. Overall, the due diligence process is in most parts similar in both countries and this report has therefore chosen to focus on how Ukraine differs from Sweden. Focusing on Ukraine might have some effect on the rigorousness of the research since it is possible to miss some important parts compared to if it had focused more on Sweden. However, the report considers this when presenting the results and analysis.

The analysis procedure to compare the Swedish case with the Ukrainian case have been mainly done through understanding the Ukrainian case in as much detail as possible and then extracting the differences when comparing with the Swedish case. Also, the people that have been interviewed in the Swedish case have knowledge about both the Swedish and Ukrainian due diligence process and could therefore give a comparative view on the differences.

3

Literature

In this chapter, the available literature is presented in four sections. The first section presents the general view on the M&A due diligence process and transaction costs. The remaining three sections - legal and regulatory considerations, political factors, and data reliability and availability - are deep-dives into the different categories of transaction costs that are relevant to describe the differences and practical implications of the due diligence process between Ukraine and Sweden.

The chapter is structured in a way to best guide the reader through the comprehensive literature study. The three deep-dive sections were developed and set through several iterations and refinements, considering incremental findings from the case study. To ensure that these three categories are mutually exclusive, but collectively exhaustive, factors involving the human or relationship aspects were only included in the two sections on political factors as well as data reliability and availability.

The whole report focuses on the differences and therefore all findings that describe the similarities in the process have been removed. Moreover, to correctly understand the analysis it felt important to give the reader some general background theory on the M&A due diligence process which is why the first section, section 3.1, in the literature study presents a general overview of said process. The first section can also be seen as an analysis framework, from which it has been helpful to identify the areas where the process differs between the two countries.

Since we, the authors, are Swedish and our intended audience consists of investors with similar background the entire report aims to present how Ukraine differs from Sweden, rather than the other way around. This approach is further justified since most academic researchers have been studying the western process of conducting a due diligence rather than the Ukrainian process, which makes it more crucial to highlight the latter.

3.1 General Literature on M&A Due Diligence

In order to investigate the differences in the due diligence processes, this section will describe the essential background knowledge to understand what is being analysed

in this research, namely the theoretical framework for M&A due diligence process. Additionally, the theoretical framework for transaction costs will be described since the whole M&A due diligence process can be seen as a transaction cost in order to acquirer companies. The theory in this section will be used as the back bone in the three other theoretical deep-dives on legal and regulatory considerations, political factors and data reliability and availability.

3.1.1 What is M&A Due Diligence and Why is it Necessary?

There is no unifying definition of what M&A due diligence in corporate acquisitions entails but multiple more or less synonymous accounts are found in the literature. Howson (2017) defines the buyer side due diligence as the process in which the buyer investigates the deal from a legal, financial and commercial perspective to understand what is being bought. This includes unearthing potential risks and defining how to draft the contracts to hedge these risks. It further includes identification of beneficial synergies, verification of all financial statements and company valuation. This definition is supported by Novikov et al. (2018), who argue that the due diligence process is tasked with providing the buyer with a complete picture of the real financial and risk situation of the target. A third definition is provided by Rosenbloom and Haimo (1997), who similarly argue that due diligence should be performed to identify risks - and how they can be mitigated -, opportunities and to unveil legal and contractual impediments that could hinder the transaction. They state that the ultimate goal of the process is to provide the buyer with enough knowledge to make an informed decision and to be at a strong negotiation position. A central term, used by Howson (2017), that summarises the concept well is: "Caveat emptor" (buyer beware).

Even though due diligence is not required by law, as discussed by Howson (2017), several arguments for going through with the process exist. Several studies have shown that most failed acquisitions did so due to flawed and insufficient due diligence before the transaction, according to both Rosenbloom and Haimo (1997) and Harvey and Lusch (1995). Rosenbloom and Haimo (1997) argue that the lack of proper due diligence leads the buyer to make a rash decision without having an adequate understanding of the risks involved. This view is supported by Howson (2017), who provides arguments that show that by performing proper due diligence, the buyer enhances the probability of successful integration. He argues that by revealing skeletons and understanding the target in-depth before integration the buyer is in a significantly better position to fully utilise the synergies related to the acquisition. Lastly, Howson provides an argument based on judicial conduct. Namely, if the buyer has not conducted proper due diligence, he/she does not have any damage claims after the transaction should he/she find issues that could have been uncovered by reasonable due diligence. Performing due diligence does not only increase the chance of successful integration, but it also provides the buyer with legal protection.

3.1.2 Types of M&A Due Diligence

Beyond the definition and proven necessity of M&A due diligence, provided above, it is crucial to understand what practical steps are needed for the due diligence to meet the requirements. Again, different practitioners choose to divide the process in different - but very similar - manners. One such example is provided by Howson (2017). Howson identifies that the buyer should perform due diligence of the target's finances, legal concerns, taxes, HR/corporate culture, management, operations, IT/Technical systems as well as their commercials.

Howson (2017) elaborates by explaining that the financial due diligence is responsible for analysing historical financial data and to forecast profits to provide a baseline target valuation. The financial review is according to Dunn and Augustyn (2016), the most important and intensive of the due diligence process. Moreover, Howson (2017) describes that the legal and tax due diligence involves the scrutiny of all client contracts and certification that no old liabilities would risk transferring to the buyer, with an emphasis on potential tax debts or inefficiencies in the latter case. The commercial due diligence involves the assessment of the target's market position and business case. The HR/corporate culture and Management due diligence is designed to analyse the soft side to minimise conflicts in the workplace after the integration by making sure that the human aspects and values are aligned. The operational and IT/Technical due diligence lastly analyses whether the buyer and the target use the same IT systems and production techniques or any other technical matters. These subsections are more or less self-explanatory and each of them involves analysing the topic in-depth to identify risks and opportunities related to that specific area.

Zerdin (2014) claims that the general M&A process in Sweden is greatly inspired by the Anglo-Saxon practices. The guidelines provided by Howson (2017), who covers the topic from an Anglo-Saxon perspective, thus serve as a theoretical foundation for how the due diligence process work in Sweden. This is strengthened by the proposed due diligence process presented by Sundgren and Pannier (2019), which closely resembles the one cited by Howson (2017). More closely connected to the Ukrainian market is the work by Novikov et al. (2018). They decide to define the subsections of due diligence as financial, legal, management and tax-related. Their and Howson's break downs are very similar, which is a result of the fact that they both provide a very shallow view of the process which makes it more or less trivial. Novikov et al. (2018) themselves argue that a more detailed analysis and breakdown has to be performed to properly address the differences apparent under the different market conditions. A final IT-industry-specific notion, provided by Sysoyev et al. (2019), is that the acquiring party in Ukraine is mainly concerned about whether the target has valuable, long term contracts. The due diligence process in this specific case should thus mainly focus on a matter relating to client contracts.

3.1.3 The Due Diligence Process Steps

All transactions are inherently different, and the process must be modified accordingly according to Novikov et al. (2018). However, they provide the following generic

recipe that should be followed in Ukraine. Besides the usual steps that one has to perform they pinpoint some steps that has to be performed in addition. Firstly, one has to analyse the background data obtained about the general economics of the target. This includes verification of the conformity of financial statements to the current legislation and the adequacy of the company's internal accounting system. Secondly, one should analyse the capital structure to identify potential dependencies on financial institutions. Novikov et al. (2018) does not explicitly state that this is due to the relatively unreliable bank system in Ukraine, but it is relevant to bring up that Moody's gives Ukrainian government bonds a Caa1 rating (Trading Economics, 2019). This can be compared to Sweden which receives a credit rating of Aaa. To put this in perspective, Moody's define a Caa rated bond as "judged to be of poor standing and subject to high credit risk" (Moody's, 2019). It is thus crucial to identify risks related to excessive leverage. The last step that Novikov et al. (2018) prescribe is that the acquiring party must verify the targets credit history, the potential presence of lawsuits or any other violations of the legislation.

Benson and Shippy (2013) argue that it is critical to comprehensively understand the buying process. They suggest that an investment banker should be involved as a professional intermediary to be able to move quickly enough in transaction process compare to other bidders to successfully compete in an auction and to minimise the risk of overpaying and losing the opportunity because of under-bidding. Even if most larger transactions use investment bankers, Benson and Shippy (2013) also mention that acquirers may choose to go without the support of third party advisers.

To understand the buying process and the timeline of the buying process, the authors lay out an overview of the buy-side process, containing four main phases or stages (Benson and Shippy, 2013). In the first phase, Phase I, the main goal is to uncover potential strategic fit and start the engagement with the acquisition target, either through reaching out to the target directly or through an invitation from the target to bid on it. The authors argue that the acquirer should conduct some research before approaching the potential target to determine specified criteria that they desire in the potential target and to come prepared. When initial interest is established, both the acquirer and target will sign a Confidentiality Agreement (CA) (Benson and Shippy, 2013). Next, in Phase II, the acquirer starts conducting the preliminary due diligence to come up with an initial valuation and decide whether or not to sign the Indication of Interest (IoI), which is a non-binding business letter that outlines the acquirer's intention to purchase the target (Benson and Shippy, 2013). Along the same lines, Psarhouthakis (2011) argued that the preliminary due diligence is needed to determine if there are any obvious "skeletons in the closet" (Psarhouthakis, 2011, p.1). In Psarhouthakis (2011) article, the preliminary due diligence is described as the investigation the buyer can do after having signed the confidentiality agreement and thus receiving initial information which is the basis for the decision to pursue and later sign a Letter of Intent.

When the Letter of Interest is submitted, Phase III of the buying process starts (Benson and Shippy, 2013). This involves that a handful of acquirers gets selected

to get the opportunity to do a more detailed due diligence by meeting with the target's management team and get access to greater amount of information and to then submit a letter of intent LoI, which includes the proposed purchase price together with relevant key terms in much more detail than the IoI (Benson and Shippy, 2013). Finally, in Phase IV the LoI has been submitted and if the acquirer is selected by the seller, the target will further negotiate the LoI by conducting the final due diligence, negotiation and then finally complete the transaction and start the integration process after the terms are agreed upon (Benson and Shippy, 2013). To summaries, Benson and Shippy (2013) note the three main parts devoted to actual due diligence is the preliminary due diligence (before signed LoI), the detailed due diligence (after signed LoI) and the final due diligence (to reach the final agreement terms), which is in line with how Andrews et al. (2017) and Psarhouthakis (2011) describe the due diligence timeline.

3.1.4 Transaction Costs

This study will use the term transaction costs as defined in Hirschey and Bentzen (2016) book *Managerial Economics*, that explains transaction costs being the cost of coordinating productive activities. In the broader picture, Williamson (1993) explain transaction costs as the costs of running the economic system. The most relevant and important transaction costs that a buyer will encounter internally is mainly information costs, decision costs and enforcement costs. To exemplify, information costs are typically searched outlays, decision costs are bargaining expenditures and the enforcement costs are charges tied to contractual commitments (Hirschey and Bentzen, 2016). All these transaction costs are a consequence of the buyer trying to overcome the asymmetric information. In other words, the transactions costs occur when the buyer putting resources to do the due diligence in order to bridge the asymmetric information.

The type and sum of transaction costs of acquisition do largely depends on the number of resources dedicated to the due diligence process, both internal and external resources, which is often limited by the companies limitation in terms of time, costs or situational factors (Harvey and Lusch, 1995). Whether or not to engage external parties, is a case by case question which mainly depends on the deal size and risks (Harvey and Lusch, 1995). The time is often a critical factor to win the deal and Fedoruk and Sozanska-Matviychuk (2016) claim that the due diligence time can drastically be reduced if both the buyer and seller employees external experts and advisers. Boyle and Winter (2010) further argue that if the due diligence drags on for too long this might cause anxiety in the target and a sense of insecurity. It is thus crucial to minimise the time it takes, he argues. One mean of decreasing transaction costs is to perform the due diligence in a cross-functional manner because it represents a less disruptive approach, according to Boyle and Winter (2010). If the deal is small, Harvey and Lusch (1995) suggest that it is often considered too expensive to do extensive due diligence which reduced the involvement of external resources. If the transaction costs are estimated to be significant, it might even be more cost-efficient to recreate the business in-house rather than attempting to go

through with the acquisition in the cases where that is indeed possible, according to Boyle and Winter (2010).

The IT-industry in Ukraine is in a seller's market, according to Sysoyev et al. (2019) because more companies are interested in buying than there are companies actively looking to sell, which Harvey and Lusch (1995) argue will affect the due diligence transaction costs mainly in time constraints. As an effect of the seller's tight time constrains, Harvey and Lusch (1995) argue that buyers tend to neglect several parts of the due diligence to save time and often only focuses on investigating financial, legal, tax and future sales projections. Along the same lines, if there are multiple bidders and a competitive market, Harvey and Lusch (1995) argue that corporations tend to cut corners in the due diligence time to save time. As discussed by both Novikov et al. (2018) and Fedoruk and Sozanska-Matviychuk (2016), the Ukrainian due diligence process suffers from high complexity and low level of standardisation which in turns signifies increased transaction costs. The process in Sweden is more standardised and backed up by a more efficient judicial system, which according to Business Sweden (2019) implies relatively low transaction costs. For example, they argue that the transaction costs in the country are in general lower than in other highly developed countries such as the UK or US.

In larger deals, the costs of the due diligence vary depending on the hours the different advisers undertake to perform the due diligence, which depends on the importance and depth of the due diligence (Ducom and Melchior, 2015). Nevertheless, Ducom and Melchior (2015) approximate the transaction cost to amount to 1% of the purchase price. Looking at transaction costs of due diligence from a trust point of view, it is striking how significant trust can reduce the transaction costs according to Al Zadjali, Wright, Radford and Clark (2010). To elaborate, Zadjali et al. (2010) explain that trust can significantly reduce the cost of doing business since trust reduces the perceived need for validation, cross-checks and documentation. As trust declines, the transaction costs increase exponentially, and with trust approaching zero the transaction costs approach infinity. As a final note, it is important that even though the due diligence process involves significant transaction costs, it serves value-creating purposes (Rosenbloom and Haimo, 1997). Besides the reasons discussed above, Rosenbloom and Haimo (1997) further conclude that one of the main purposes of the due diligence is to identify future transaction costs, for example future contractual impediments and legal struggles with government or other third parties. The costs involved with the process might thus reduce future costs, meaning that the net transaction is less pessimistic than the results presented by for example Ducom and Melchior (2015).

The study has identified three areas which are necessary to analyse in order to explain the differences between the transaction costs of doing a due diligence in Sweden and in Ukraine. These constitute the following three sections, respectively, and are: legal and regulatory considerations, political factors, and reliability and availability. In each section the factor is analysed in terms of the time and effort implications it poses in the respective jurisdiction, which directly translates to how

high the transaction costs related to the process are. For example, if the amount of publicly available data is low then more time and effort must be spent on gathering intelligence which means that the process is more costly. This, and many other factors are analysed in depth in the remainder of this chapter.

3.2 Literature Review of Legal and Regulatory Considerations

In this section the legal and regulatory considerations are explained, which is the first deep-dive on how the transaction costs associated with the due diligence process in Ukraine differs from Sweden according to available research and literature. Each subsection describes important considerations with regards to the Regulatory framework, Tax system, Corporate structure and Deal type - all of which are sources of varying transaction costs.

3.2.1 Regulatory Framework

The legal and economic state of Ukraine is a major challenge for all agents active in the market, according to Fedoruk and Sozanska-Matviychuk (2016). They argue that the judicial system governing M&A activity has severe limitations and that even though it has shown several positive improvements recently it is still a long way to go. They even conclude that a majority of large M&A deals in Ukraine are conducted under English law, rather than to follow local legislation. These findings are supported by the work of Howson (2017). In his book, he makes it clear that the acquisition process, and indeed also the related due diligence process, is much more developed in the Anglo-Saxon world compared to other jurisdictions. Howson states that because of this drawback several continental European transactions in practice follow the Anglo-Saxon practice. However, this fact is not equivalent to saying that one only has to be concerned with Anglo-Saxon regulations when operating in these countries. It is, in fact, crucial for the acquiring party to seek local advice to identify country-specific regulations that play into effect on top of the Anglo-Saxon framework (Howson, 2017).

According to Zerdin (2014), the Swedish M&A framework is structured in the same way as the Anglo-Saxon practices. Furthermore, as discussed by Sundgren and Pannier (2019), most M&A transactions in Sweden are practically conducted in accordance with Swedish law even if one of the parties is non-Swedish. They argue that this is because of the Swedish law's "internationally recognised enforceability" and overall system maturity.

Fedoruk and Sozanska-Matviychuk (2016) discuss an issue with performing due diligence in Ukraine. In the article, it is presented that acquisition by private entities is not extensively regulated by law nor guided by established practice. This means that different agents are free to do as they find best, meaning that each transaction will be different. This lack of standardisation is supported by Novikov et al. (2018).

They discuss that there is a plethora of international standards in use in western economies that could be employed to guide the process in Ukraine - such as the ISAE 300, ISA and ISRS 440, the latter being the most suiting - but to date, no legislation or other actors force the industry to do so. The situation in Sweden is quite different, according to an article by Business Sweden (2019). In the article, it is stated that the Swedish due diligence process is relatively standardised and follows the international practice. Further, Novikov et al. (2018) conclude, due diligence is a rather new phenomenon in Ukraine which historically has been equated with the much more narrow concept of doing a financial audit. They further argue that it would be beneficial for buyers of Ukrainian targets to approach the due diligence process with a cross-functional team with professionals of different backgrounds to shine a broad light on the diverse flora of risks and opportunities present.

3.2.2 Tax System, Corporate Structure and Loop Holes

A matter of ongoing discussion in Ukraine is the taxation system. According to a report by the United Nations (2005) the single largest inhibitor to attract foreign investments in Ukraine is the overly complex and contradictory taxation law. The report further argues that the overall high tax rates in Ukraine pose additional obstacles to conduct business in the country. The fact that the taxation system is, in fact, contradictory is supported by an article by Musienko and Dymtrenko (2019). On the other hand, some agents have learnt how to use the loopholes caused by these incomplete regulations to their favour. A report by Sysoyev et al. (2019) claims the complete opposite to the report by the United Nations by stating that the "favourable taxation system", together with the low cost of living, makes Ukraine a very attractive market for IT people. The reason behind this statement is that there is a significant loophole in the system that is especially favourable for an industry such as the IT-industry, as discussed below.

The corporate structure in Ukraine has two unique features that are important to understand. Firstly, the majority of Ukrainian companies are actually legally registered in another jurisdiction, such as the US or an EU-member state, even though a majority of firms have more than 95% Ukrainian employees (Fedoruk and Sozanska-Matviychuk, 2016). This is a consequence of the fact that the judicial and taxation system in Ukraine, as well as the unstable political situation, makes it less favourable to register the firm domestically. This phenomena can further be understood in light of the fact that more than 50% of revenues for Ukrainian IT-companies originate in the U.S. (Fedoruk and Sozanska-Matviychuk, 2016). The second important feature, relating to the discussed loopholes in the taxation law, concerns the contractual relationship between the firm and its employees. Sysoyev et al. (2019) explain that the employment tax is 41.5% in Ukraine, but the tax rate imposed on private entrepreneurs is only 6%. The private entrepreneurs pays 5% in unified tax and 1% in other fees (Sysoyev et al., 2019). This has resulted in that a great majority of IT companies in Ukraine consist of more than 90% independent contractors or private entrepreneurs. Virtually no one is employed directly, meaning that the effective tax rate of labour in the IT industry is close to 6% (Sysoyev et al.,

2019). It is further argued that this structure "facilitates the avoidance of a number of formalities and risks associated with employment relations" (Sysoyev et al., 2019, p.60). In conclusion, the generic IT corporate structure in Ukraine is that the firm is legally registered abroad and the entire workforce consists of private contractors.

3.2.3 Deal Type

The structuring of an acquisition deal can be off mainly two different types: Either by a transfer of shares or by the direct purchase of assets in the target (Sozanska-Matviychuk and Brusko, 2019). The former means that the entire balance sheet of the target, including all assets and liabilities, transfer to the buyer. Practically it means that the only transaction that takes place is that the shares are signed over from one party to another, meaning that it is relatively straight forward to implement. The downside is that all historical liabilities and events that are potentially hidden and hard to distinguish also transfer to the buyer. This increases the risk of the acquisition, according to Sozanska-Matviychuk and Brusko (2019). The current legislation in Ukraine means that a share deal is generally tax neutral, but there are limitations on such an acquisition by foreign legal entities that makes the process more complicated in such cases. Sozanska-Matviychuk and Brusko (2019) further describe the alternate solution of doing an asset purchase. This type of deal means that the buyer can pick and choose which assets it wishes to acquire and choose to leave liabilities or non-profitable assets. Contrary to in a share deal, such a transfer of ownership only includes the assets that are explicitly included in the deal and does thus not imply that hidden liabilities automatically transfers to the buyer. A major advantage of such a deal is thus that the risk is lower since only the scrutinised assets are bought. The downside is that every asset that the buyer wishes to acquire must be explicitly included in the contract, which can significantly increase the complexity of going through with the deal and thus increases transaction costs (Sozanska-Matviychuk and Brusko, 2019).

The choice of acquisition type in Ukraine depends on the context. According to Sozanska-Matviychuk and Brusko (2019), share deals are the most common. This is also the case in Sweden (Business Sweden, 2019). However, and more importantly to this paper, regarding the IT-industry in Ukraine, it is more common to structure the deal as an asset purchase paid in cash, according to Fedoruk and Sozanska-Matviychuk (2016). They argue that the reason behind this is due to that most corporations are legally registered in foreign jurisdictions and Ukrainian law poses several restrictions on the transfer of shares to foreign entities which makes a share deal severely more complex than an asset deal. One such impediment is the current ban on repatriation of proceeds on share sales in Ukraine, making it harder for foreign investors to realise their profits. Another is that there is currently no squeeze-out mechanism in place to manage minority shareholders (Fedoruk and Sozanska-Matviychuk, 2016), as opposed to the situation in Sweden (Sundgren and Pannier, 2019), meaning that all owners have to agree to the purchase. Yet another example of these restrictions is provided by Sysoyev et al. (2019), who state that it is not even allowed do to cross border mergers. Furthermore, they discuss that most acquisitions

of Ukrainian IT-companies are structured to be between two foreign entities to avoid the high domestic tax rate. This situation is likely to change however, because of the already discussed planned tax regulations on deals conducted abroad (Musienko and Dymtrenko, 2019).

3.3 Literature Review of Political Factors

An obvious difference between Sweden and Ukraine is that the latter is at war. This will inevitably affect all matters in Ukraine and the due diligence process is no exception. As cited by Rosenbloom and Haimo (1997): "Political tension may cause ebbs and flows in the deal stream", a statement which emphasise how the war will inherently impact the general way of business conduct in the country. Matters are further complicated by Ukraine's historical relationship to the collapse of the USSR, which has resulted in that corruption is widespread, according to Transparency International (2018), and that the judicial system is less mature than in western economies (Fedoruk and Sozanska-Matviychuk, 2016). Additional proof of the instability in Ukraine is the low bond rating by Trading Economics (2019) and high-interest rates discussed above. It is thus paramount to analyse these factors for anyone interested in conducting business in the country.

In this section the political factors in play are explained, which is the second deep-dive on how the transaction costs associated with the due diligence process in Ukraine differs from Sweden according to available research and literature. Each subsection describes important considerations with regards to the Government impact and Corruption - which both are sources of varying transaction costs.

3.3.1 Government Impact

An exemplification that emphasises the concern regarding political aspects in Ukraine is presented by Kostyuk (2003). In his article, he reports that the government has seized private companies in the past without proper grounds. This in itself is enough to raise a red flag and requires the buyer to properly analyse the risks involved during the due diligence. Additionally, as discussed by a report from the United Nations (2005), the judicial system in Ukraine is far from perfect and allegations of unfair rulings are commonplace. The report further states that property rights, both physical and intellectual, are poorly protected and that the "legal basis for corporate governance is weak and minority shareholders might have difficulties to protect their interests". To conclude it is necessary for anyone conducting business in Ukraine to be aware of the difficult political and judicial state and thoroughly evaluate all, if any, risks that this brings to the business model. In Sweden on the other hand, these risks are much lower according to Business Sweden (2019). Further, it is claimed in the article that the Swedish judicial system is efficient and fair and that this, in turn, reduces risks and transaction costs associated with corporate acquisitions in Sweden.

According to Fedoruk and Sozanska-Matviychuk (2016), the regulatory system of

Ukraine is evolving and changing rapidly due to two reasons. The first is because the country has taken substantial loans from the IMF in an attempt to increase the volume of the economy. These loans, according to Kushnirsky (2014), come with several conditions that force Ukraine to improve the current business and judicial climate, amongst other things. This is confirmed by Fedoruk and Sozanska-Matviychuk (2016), who also report that the regulatory state in Ukraine is also changing due to the 2014 agreement with the EU. This agreement stipulates that Ukraine should harmonise its governmental system to approach the European system. This includes how merger control and corporate governance mechanisms are regulated. Fedoruk and Sozanska-Matviychuk (2016) thus predict that the Ukrainian system will change drastically over the coming years, and that it will likely converge towards the western standards. The article has a positive view of these changes and argues that the investment climate will improve. Whatever the view or outcome of the regulatory changes, it is important for an investor to be aware that the current system is in no way in a steady-state and should be prepared to counter big changes.

Several examples of ongoing reforms are cited in the literature. Musienko and Dymtrenko (2019) discuss ongoing tax regulatory changes that are intended to cover historical loopholes regarding corporate acquisitions. In the article, it is described that the reform intends to impose tax implications in Ukraine when foreign entities purchases shares in another foreign entity which has its main operations in Ukraine. Because the current corporate structure in Ukraine, discussed in a previous section, often involves offshore legal entities such a reform will have a big impact on most M&A due diligence processes in Ukraine. Depending on how this reform plays out, very severe implications on how such a deal is ideally structured will emerge. Further current regulatory changes in this regard are discussed by Fedoruk and Sozanska-Matviychuk (2016). They describe that the Ukrainian government has recently imposed a ban on share proceed repatriation for foreign investors, in an attempt to retain cash in the country. This rather drastic change is a good example of how the current economic distress in Ukraine forces the government to act in ways that might impact individuals in an attempt to steady the economy. A last note, discussed by Fedoruk and Sozanska-Matviychuk (2016), is that there is currently a wave of privatisations in Ukraine. They argue that this will both increase the overall interest from foreign investors and the general market conditions in Ukraine.

3.3.2 Corruption

A political factor that differs between Sweden and Ukraine when it comes to due diligence, as indicated by Fedoruk and Sozanska-Matviychuk (2016), is the risk of bribery and corruption. According to the Corruption Perception Index (CPI) by Transparency International (2018), which is the leading global indicator of corruption in the public sector, Ukraine got an index score of 32, at a scale from 0 (highly corrupt) to 100 (very clean). To put that into perspective, countries with similar scores include Malawi, Pakistan and Colombia with scores of 32, 33 and 36 respectively. Contrary, Sweden is one of the world's least corrupted countries with an index score of 85, only surpassed by Denmark and New Zealand. A report from the

United Nations (2005) presents additional evidence to support that severe corruption is present in Ukraine. Furthermore, the report concludes that the Ukrainian market exhibit clear signs of anti-competitiveness, discriminatory practices and non-level playing field.

In an article by Boyle and Winter (2010), discussing due diligence in China, it is recommended that background checks should always be performed on key personnel in the target company because of numerous historical incidents of embezzlement or similar activities. Considering that China's CPI score is 39, thus slightly higher than Ukraine's (Transparency International, 2018), it is perhaps justified to heed this advice in Ukraine as well.

Buyers that fail to do a proper due diligence of bribery and corruption face a great risk of purchasing an overvalued company together with serious collateral consequences, shows a recent study by Leonard, Marambio, Rial and Velaz at Deloitte (2016). Collateral consequences, refer to e.g the intrusive and expensive post-transaction government investigations, restricted business opportunities and reputation damage. To cope with this, Leonard et al. (2016) argue that buyers should consider performing "integrity due diligence" to explore the target background, key personnel and third party business partners. As Hernan Marambio, M&A Transaction Services Leader at Deloitte, puts it "Due diligence is not just about trying to identify if a target is engaged in illegal activities, but it's also to understand its culture and to assess if it's an organisation you want to be in a relationship with" (Leonard et al., 2016, p2).

After the official dissolution of the Soviet Union in December 1991 (Kushnirsky, 2014), criminal organisations flourished and the need for protection from corporate raiding and help to settle disputes increased, leading to the common usage of the informal word *krysha* (Rojansky, 2014). *Krysha* is the Russian word for 'roof' and it is a widely used phrase that refers to "individuals or organisations that provide a range of services, predominantly illicit and informal, ranging from protection and patronage to the enforcement of contracts and settlement of disputes." (Zabyelina and Buzhor, 2018, pg. 256). Adding to this, Rojansky (2014) reveal that *Krysha* not only refers to the provision of protection but could also include attacking or raiding competitors' businesses.

Moreover, Zabyelina and Buzhor (2018) describe how the phrase *krysha* evolved from the disintegration of the Soviet Union after the major socio-economic and political reforms, primarily regarding property privatisation, constituted a favourable environment for strengthening criminal organisations. They explain how the phenomenon in the early days related to extortion through actual violence or threat of violence by criminal organisations. Zabyelina and Buzhor (2018) report that there were several cases in 1997 where a business owner would have to pay between 10 to 60 percent of its pre-tax income for protection. Additionally, Zabyelina and Buzhor (2018) state that if criminals found the business particularly attractive, they could go as far as to demand a share of ownership of the business. With this in mind,

Zabyelina and Buzhor (2018) argue that there are three types of krysha: criminal krysha, combined or 'semi-legal' krysha and government krysha. They describe them by saying that criminal krysha is arranged by organised crime organisations, semi-legal krysha is provided by both public official and criminal organisations working together and government krysha is arranged by involving public officials from various state institutions. After all, it is important to understand that this was over 20 years ago and that efforts from the post-Soviet government have been done to tackle these informal practices, however, foreign investors continue to repeatedly raise concerns regarding the troublesome characteristics of the country's reputation with respect to extortion, bribery and competitive behaviour, according to Zabyelina and Buzhor (2018).

The legal definition of corruption can become twisted, convoluted and confused and Zadjali et al. (2010) argue that in order to facilitate control and to work against corruption, the definition of the term need to be general and unambiguous. Firstly, Zadjali et al. (2010) note that corruption is not about private gain and refers to a quote by Amos (1982), "There is nothing wrong in making partial decisions in return for favours on the grounds that it harms nobody" (Zadjali et al., 2010, p.8). Secondly, the study by Zadjali et al. (2010) suggests that the corruption definition should be provided by the notion of harm or tort. With this in mind, Zadjali et al. (2010) argue that in order to accuse someone of corruption it requires proof of the following three "legs"; A) Duty and existence of care is owned, B) Duty of this owned care is then breached C) finally, if this breached caused some harm that would be considered corruption. At the same time, Zadjali et al. (2010) describe that a few researchers may even suggest that a small level of corruption could be beneficial for the society by working around bureaucratic blockages to economic growth. However, such claims are furiously disputed by most researchers and are irrelevant for the definition of the tort approach to corruption (Zadjali et al., 2010).

3.4 Literature Review of Data Reliability and Availability

In this section the impact of data transparency is explained, which is the third and final deep-dive on how the transaction costs associated with the due diligence process in Ukraine differs from Sweden according to available research and literature.

3.4.1 Transparency

An attempt to define transparency is provided by Schnackenberg and Timlinson (2016). In the article, they provide a more flexible framework for analysing transparency by arguing that it can be measured in terms of three factors: Volume of disclosed data, its reliability and the ease of interpretation of the disclosed information. In terms of due diligence, transparency of the target company is a critical factor that determines how the process can, and should, be designed, according to Rosenbloom and Haimo (1997). As the transparency increases, the transaction costs

decreases since the critical information becomes more available and reliable.

Rosenbloom and Haimo (1997) argue that there are essentially two schools when it comes to due diligence. One that is prescribed by the anglo-saxon countries and one that is used in the rest of the world. Rosenbloom and Haimo (1997) describe that the anglo-saxon practice is largely based on the existence of significant disclosure of financial and legal information from the target to the buyer, before signing any legal contracts. This disclosure increases the transparency significantly which simplifies the process and allows the parties to get more objective information. This is the case in Sweden, as discussed in an article by Business Sweden (2019). Sundgren and Pannier (2019) state that Swedish companies are legally obliged to make "extensive filings" of for example financial data to the proper authorities which are then made publicly available. Rosenbloom and Haimo (1997) argue that this abundance of disclosed information allows for the process to be tightly bound to documents and quantitative data. The article continues by stating the reality is very different in the rest of the world which does not have this disclosure mechanism, Ukraine included. In these market conditions, they argue, the due diligence process is instead trust-based and based on relationship forming. This is due to the fact that information can largely only be provided in this manner, they argue. They conclude that due to these factors the due diligence process in this part of the world is much more modest. The in countries like Ukraine, the asymmetric information is not bridged through due diligence but rather through trust-based. Any anglo-saxon investor considering to enter such a market must thus consider these differences and be prepared to alter their process accordingly (Rosenbloom and Haimo, 1997).

In a report by McGee (2009) discussing corporate governance in Ukraine, it is concluded that Ukraine is given one of the lowest scores in general with regards to compliance with OECD standards. More specifically, Ukraine is given a score of 2.7 out of 5.0 for its informational transparency which can be compared with Sweden who scores 4.5 out of 5.0 (Transparency International, 2018). This supports the findings reported above by Rosenbloom and Haimo (1997) regarding that the amount of publicly available data is low in Ukraine. Kostyuk (2003) takes the matter even further and argues that acquiring a company in Ukraine is much like buying "a cat in a sack". In his article, he writes that the due diligence process in Ukraine is severely inhibited and impaired due to the lack of informational transparency. He focuses on the financial documentation and argues that the accounting quality in Ukraine is lower than in western economies, which makes it difficult for the acquiring party to properly assess the profitability and evaluate risks of the target company utilizing only publicly available data. On the contrary, it is argued that the Swedish regulations allow for easy retrieval of financial data on companies through open, public records. Furthermore, the tight regulations create a "high degree of transparency and certainty" of financial records which allows for high ease of interpretability and low risk of deceiving documentation (Business Sweden, 2019).

A slightly more positive view on the Ukrainian situation is presented by Fedoruk and Sozanska-Matviychuk (2016). They also recognise the difficulties in performing

due diligence in Ukraine due to low transparency, but they further discuss that recent regulatory changes in Ukraine have improved the situation slightly by forcing companies to disclose more organisational documentation, including for example ownership structure. They conclude that this has to lead to a greater extent of publicly available data, but it is still lacking. This trend towards better transparency in Ukraine is supported by the work of Ostapiuk et al. (2017). The authors of this article present findings that reveal that business leaders in Ukraine are becoming more aware of the benefits of being transparent since it attracts more investors and thus can decrease the cost of capital.

3.4.2 Data Acquisition

In western economies, the common approach in corporate acquisitions is that the target provides the buyer with documentation in what is called a virtual data room, according to Fedoruk and Sozanska-Matviychuk (2016), which vastly reduces transaction costs of the due diligence. This is the case in Sweden, according to an article written by Sundgren and Pannier (2019). During this part of the process, the buyer is given valuable insights into the inner workings of the target by analysing its data in depth. However, as discussed by Fedoruk and Sozanska-Matviychuk (2016), this process is very rare in Ukraine. Further, it is hardly ever used unless the deal at hand is very large. For medium-sized acquisitions it is thus not likely that the buyer will have access to such a data room. This situation is very similar to the case in China, described by Boyle and Winter (2010). In China, the limited available data is often intentionally misleading, as a way of avoiding taxes. As discussed in a previous section the general tendency in Ukraine is also to avoid paying taxes, if possible. Further, the accounting standard in Ukraine is relatively low (Kostyuk, 2003). These similarities, together with the similarity with regards to corruption stated previously, leads to the conclusion that the scenario described in China is relatively well suited to explain the situation in Ukraine as well. It is thus reasonable to assume that the scenario of misleading, or at least only partially truthful, disclosed information might be present in Ukraine as well.

Having established a certain resemblance between the Ukrainian and Chinese market conditions one can use the proposed data acquisition process in the article by Boyle and Winter (2010) as a guideline for solving the limited transparency issue. Boyle and Winter discuss that under such circumstances "an acquirer that limits itself to the mere examination of the paper trail will fall on its face." They argue that a preferred data acquisition method is to focus on onsite activity, rather than relying on documentation. A key part of the due diligence part according to the article is to physically visit the company and the surrounding areas. They even state that the buyer should go to local pubs to eavesdrop on drunk employees of the target, arguing that such an approach reveals more truthful information on the actual company performance. The article further emphasises that it is imperative to talk to the staff, not only including management.

3.5 Key Takeaways from the Literature Review

To summarize the findings in this literature review, a due diligence process in Ukraine seems to differ according to the literature in at least three categories: legal and regulatory consideration, political factors and data reliability and availability. All these three categories are types of transaction costs that show the differences between a Ukrainian and a Swedish due diligence process. Firstly, the regulatory considerations are mainly regarding Ukraine's different tax system which affects the deal type and corporate structures. This in turn makes the due diligence process more time consuming to get a correct overview, which increases the transaction costs involved. Secondly, the due diligence in Ukraine involves more risk in terms of government impact and corruption than in Sweden, which further increases the transaction costs of the due diligence. Lastly, the data reliability and availability in Ukraine is lower than in Sweden which then forces the acquirer to rely more on relationships because of the otherwise unfeasibly high transaction costs.

4

Findings and Analysis

In this chapter the empirical data and an analysis of the findings will be presented. The analysis is based on the presented literature review and is supported by empirical findings. To help the reader to get the nuances of the discussion, the data will be presented in the three main categories established in the literature review. Namely, legal and regulatory considerations, political factors and data reliability and availability. As explained in section 3.1, the general theory on the M&A due diligence has been the knowledge base to uncover these three main categories and are therefore not presented in a separate section in this chapter, but rather being used in all of the following three categories.

4.1 Legal and Regulatory Considerations

From the interviews and observations conducted, the first realisation was that legal and regulatory considerations were important and a core issue of the due diligence process for the management team of the buyer organisation, Beetroot. The main differences between Ukraine and Sweden regarded the tax system, corporate structure and the deal type. This was discussed at length by several sources in the literature review (Fedoruk and Sozanska-Matviychuk, 2016; Howson, 2017; United Nations, 2005; Musienko and Dymtrenko, 2019; Sysoyev et al., 2019; Sozanska-Matviychuk and Brusko, 2019) and was supported by multiple interviews. Andreas Flodström, CEO at Beetroot AB, explained that since the tax rate for private contractors is significantly lower than conventional employment 44% of the entire workforce in Ukraine consists of private contractors. He exemplified the extent of this by stating that even the cashier at the local supermarket is usually not directly employed, but contracted as a private contractor. This number is even higher in the IT-industry, where virtually everyone is a private entrepreneur, according to both Flodström and in line with the 90% stated by Sysoyev et al. (2019) that was presented in the literature review.

The legal counsel at Beetroot, Yurii Vatsyk provided a more detailed description of the corporate structure of the target, Onlinico, LLC. He explained that they have no employees, instead all operations are conducted by private contractors. Further, the company is legally registered in the US and has American owners on paper, but these

owners are in practice without a say on how operations proceed. They are just a means of being able to register the company in the US. The entire operations are run by the local management team who in turn has a contractual relationship with the owners, stating that they in effect own and operate everything. All of these described characteristics of how Beetroot is structured are in line with the findings by Sysoyev et al. (2019), which provides additional confidence in the interview. Vatsyk further explained that client contracts are bound either to the US legal entity directly or to any of the private contractors in Ukraine. In the case of Onlinco, LLC. just under one-third of contracts were with the US legal entity. This kind of company structure is very common in the IT industry in Ukraine, according to both Vatsyk and (Sysoyev et al., 2019; Fedoruk and Sozanska-Matviychuk, 2016).

From the description by Vatsyk, it is common to see that the contractual arrangement in a mid-size acquisition in Ukraine is substantially more complex than the average case in Sweden. In general, it involves multiple legal jurisdictions and legal entities, all of whom have to be identified, untangled and analysed. In accordance with theoretical predictions described in the literature review (Howson, 2017; Fedoruk and Sozanska-Matviychuk, 2016), these contracts were all written using an American template which, according to Vatsyk, make the due diligence slightly simpler for an agent originating from an Anglo-Saxon jurisdiction. The transaction costs associated with the transfer and analysis of contracts, are nevertheless larger due to this additional level of complexity. Vatsyk explained that it is relatively simple to transfer the contracts that are written with private contractors in Ukraine but to identify all relations is a time-consuming work. This lack of transparency also makes it more difficult to do proper company valuations, according to Arvid Joelsson, Head of Operations Nordic at Beetroot AB. He explained that because it is hard to get a good overview of the company's financial data and clients it is difficult to pinpoint the true underlying value, at least before a substantial effort has been put into the analysis. The literature and interviews are thus coherent in stating that the due diligence process in Ukraine is significantly more time consuming due to the lack of transparency and complex legal relationships. The transparency issue is discussed at length in section 4.3 below.

A key insight from the case study is that the most viable solution is to perform the acquisition in Ukraine as an asset deal, rather than a share deal. The reason behind this is due to the overly complex corporate structure and involvement of multiple jurisdictions discussed above. As discussed in the literature review by (Sozanska-Matviychuk and Brusko, 2019; Fedoruk and Sozanska-Matviychuk, 2016; Sysoyev et al., 2019; Musienko and Dymtrenko, 2019) there are several regulatory issues with purchasing and transferring shares across borders in Ukraine, which makes a share deal impractical in terms of transaction costs. Further, as in the case of Beetroot and the acquisition of Onlinco, LLC. there is little interest in holding a share in the U.S. legal entity since all operations are in Ukraine anyway. The preferred deal type, which was also the choice of Beetroot, is thus an asset deal. Interestingly enough the main reason to pursue an asset deal was not due to the general upsides of asset deals, such as limited liability and the opportunity to only purchase parts of the target.

Flodström explained that limited liability was indeed important to them and a way to decrease the risk, but still not the main reason behind the decision. Instead, the choice is a consequence of the lacking taxation system. This is supported by several sources (Sozanska-Matviychuk and Brusko, 2019; Sysoyev et al., 2019; Fedoruk and Sozanska-Matviychuk, 2016; Musienko and Dymtrenko, 2019). The case in Sweden is different, as described by Olnäs Fors, a partner at Mannheimer Swartling. She explained in an interview that although the majority of all transactions in Sweden are structured as share deals - supported by (Business Sweden, 2019) - identification of historical risks during due diligence may lead to a change in deal type in order to eliminate such risks. She further explained that the practical approach when doing the actual asset deal is similar in most European jurisdictions, in respect of, *inter alia*, transfer of employees and assignment of contracts. The difference in this regard between the two jurisdictions is thus simply that in Sweden the buyer has the option to do either deal type, but in Ukraine, the asset deal is more or less the only viable option.

The legal due diligence in Ukraine has some specific features that are different from the Swedish setting. For one, the superficial contractual relationship with a foreign legal entity must be handled as discussed above. This relationship usually holds no true meaning in a business sense, but it does contain some cause for concern. In the case of Onlinico, LLC. the due diligence, for example, revealed that the relationship with the American owner was more or less trust-based and had limited legal coverage. This meant that risk throughout the entire negotiations was that the American owners, who were not even a part of the negotiations, might have tanked the entire deal by imposing unreasonable demands when this contract severing would take place. Flodström mentioned in the interview that this was an actual concern for him throughout the entire process. An important part of the due diligence is thus to identify what this foreign relationship looks like and whether there is a risk that the foreign party might intervene. Similar parallels are discussed by Fedoruk and Sozanska-Matviychuk (2016) and Sysoyev et al. (2019).

A second legal step that is present in Ukraine but not in Sweden is that the signing of the target contractors is less straight forward because it essentially translates to resigning several consultancy firms (Fedoruk and Sozanska-Matviychuk, 2016; Sysoyev et al., 2019). Vatsyk claimed that this step is not overly complex, but that it takes some additional time and thus increases the overall transaction cost. As discussed by Olnäs Fors, assignment of contracts in general requires the counterparty's consent. As the number of different contracts, between different entities, increases so does the transaction cost involved in the scrutiny. In a share deal, assignment of contracts is not necessary, although buyers must always control for the existence of change of control provisions in the agreements in place, and decide whether a consent or waiver should be obtained from the counterparty. Olnäs Fors approximated the transaction cost for the legal due diligence to be 0.25% of the transaction value, but the actual costs will depend on the type of transaction, business and related risks. The study has not found any sources quoting the approximate transaction cost for the due diligence process in Ukraine, but due to the increased contractual

complexity in Ukraine it is likely to be larger than the counter party in Sweden. The last note is that in case the due diligence reveals that the corporate structure of the target is sub-optimal from a taxation perspective, it might be possible to significantly increase the target valuation by using the discussed loopholes. This is, of course, a possibility in any jurisdiction, Sweden included, but few countries present such large difference in terms of taxation depending on the chosen structure as is the case in Ukraine (Sysoyev et al., 2019).

To summaries the findings and analysis of the legal and regulatory considerations, it describes several factors that makes the transaction costs higher in Ukraine compare to Sweden, especially because the need for more thorough due diligence of customer contracts and corporate structures in Ukraine. This difference is largely a consequence of the different deal types used in Ukraine compared to Sweden, asset versus share deals. In Ukraine, there is a need for asset deals because regulatory regulations in Ukraine makes it too risky and costly to do a share deal. Sweden on the contrary has lower transaction times due to the fact that most deals are share deals and because most companies have a simpler corporate structure. The complex corporate structures in Ukraine are largely a consequence of the contradictory regulatory system and the loophole in the tax system for private entrepreneurs. Regarding the due diligence of the customer contracts, several findings points towards that customer contracts in the IT-industry in Ukraine can sometimes be signed with the private entrepreneur individually and not with the legal entity, which adds to the current understanding of the role of the private entrepreneur described by Fedoruk and Sozanska-Matviychuk (2016). In effect, the due diligence process analysing the contracts becomes more complicated and important to review, which adds to the combined transaction costs of the due diligence. Another consequence is that the contracts are therefore written in different countries with different legal requirements that can complicate the contract review, which further add to the transaction costs. Next, the differences in the due diligence of corporate structures are much more complicated in Ukraine than in Sweden. As explained above, most Ukrainian companies have a legal entities outside of Ukraine and each worker is not employed by the legal entity but rather working as private contractors. As a result, the time and effort to understand and review what you are buying increases significantly, which increases the transaction costs. Lastly, if the target company does not have an optimal corporate structure that takes advantage of the tax loop-holes, for example, there is a valuable direct opportunity that will quickly increase the target company's value.

4.2 Political Factors

Just as with the legal matters, the predictions set forth by the literature review regarding political impact in the form of corruption, krysha and overall weak judicial system were at play also in the case study. No real evidence to support a rational fear of governmental seizing of a private company was presented, as opposed to the discussion by Kostyuk (2003), suggesting that such a pessimistic mindset is no longer realistic in the Ukrainian market. Similarly, no empirical evidence was presented

that suggests that the average buyer in Ukraine has to fear dramatically unfair judicial treatment, contrary to the report by the United Nations (2005). With that said, the case study provides clear evidence that the general state of the Ukrainian judicial system is significantly worse off than the Swedish. This is in line with the reports by (Kostyuk, 2003; United Nations, 2005; Business Sweden, 2019; Fedoruk and Sozanska-Matviychuk, 2016). Andreas Flodström, CEO of Beetroot AB, explained that the regulatory and legal system, in general, is very hard to navigate and understand. At times, he explained, the regulations are even contradictory meaning that even if a complete understanding of the legal matters is at hand it is impossible to fully comply with regulations. This statement is corroborated by Musienko and Dymtrenko (2019). This in conjuncture with the fact that the country is at war and is being torn between the EU and Russia makes it an unstable market place. When asked, the interviewed angel investor A stated that she would not consider entering the Ukrainian market due to that the political risk is too high. Such a statement from a very experienced investor provides evidence to support that any due diligence process conducted in Ukraine must always consider this political instability. The buyer has to analyse if there are any risks associated with the business model that can be connected to how the political landscape changes.

Another difference in the due diligence process between the two countries was described by Fredrik Adolfsson, an investor in Beetroot AB with previous M&A experience in Ukraine. Adolfsson is also currently the CEO of Aducera Consulting. He explained that the normal case in Sweden would involve that both parties mutually device and sign a guarantee package. This legal document includes what happens, and who pays, if any damages are found by the buyer after the deal has been signed. This transfer of risk means that less risk analysis has to be performed in the due diligence. He further described that such an approach is usually not viable in Ukraine since the judicial system is lacking, in the sense that it is not certain that the buyer can collect fines if unsolicited damages are found post signing (Fedoruk and Sozanska-Matviychuk, 2016; United Nations, 2005; Kostyuk, 2003). This statement is supported by the fact that none of the reports quoted mention the use of guarantee packages in Ukraine. This provides a clear difference in how the due diligence in Ukraine must be more rigorous, and thus more time consuming, than in Sweden since there is limited plausible risk-transfer mechanisms at play by virtue of contracts.

Several researchers have provided evidence that the current state of affairs in Ukraine is rapidly changing, as discussed in the literature review (Fedoruk and Sozanska-Matviychuk, 2016; Musienko and Dymtrenko, 2019; Kushnirsky, 2014). This was supported by the interview with Flodström and Adolfsson. To start with, Adolfsson explained that the regulation process in Ukraine does not typically have a two year preparatory work before a decision as is typically the case in Sweden, meaning that it is high risk that it happens much quicker. As a consequence, Adolfsson argued that it is important as a business person to create a feeling regarding what direction the regulations are heading by staying up to date with the news and/or ask contacts with insights into the process. These views are supported by Fedoruk and

Sozanska-Matviychuk (2016). This is of course the case in Sweden as well, but due to the increased speed of change in Ukraine (Fedoruk and Sozanska-Matviychuk, 2016; Musienko and Dymtrenko, 2019; Kushnirsky, 2014) it is even more crucial in Ukraine.

As an example, Flodström explained that the current taxation system is currently under review and is expected to be replaced in 2020. The changes are expected to be dramatic to counteract the fact that 50% of the Ukrainian economy is black, he explained. The hope is that by dropping the tax rate from the current 42% to somewhere between 10-15% it will be less attractive to avoid taxes, thus dramatically decreasing the black market and increasing the state's revenues. These changes, besides being dramatic, should further be considered in light of the fact that the entire norm for corporate structures is based on the flawed taxation system (Fedoruk and Sozanska-Matviychuk, 2016; Sysoyev et al., 2019). Such a change in taxation would likely cause a large change in how the general firm is structured which will change several of the conclusions found in this report. From a due diligence perspective, it is thus crucial to keep up to date with how these reforms propagate and to investigate how these changes would impact the profitability and risks associated with the acquisition. For example, Flodström discussed that there is a risk that if the tax rates increase companies might start to look for ways to avoid taxes, thus creating a non-level playing field. He further stated that if the tax rates increase, meaning that the after tax income of developers decrease, there is a considerable risk that parts of the workforce decides to move abroad. This type of due diligence was thus performed in the case of Beetroot. Flodström even had a meeting with no less than six ministers to get the chance to discuss future changes that would bring the Ukrainian system closer to the Swedish and European systems. This specific action is likely not necessary in the average acquisition in Ukraine, since not everyone is trying to help the Ukrainian economy and system like Flodström, but it emphasises the importance of heeding the fact that the system is in no way near steady-state and changes can come quickly.

The perhaps single biggest difference between Sweden and Ukraine that was observed is the widespread corruption present in Ukraine (Transparency International, 2018; Fedoruk and Sozanska-Matviychuk, 2016; United Nations, 2005). This was made clear just minutes after arriving in the country when the taxi driver, unprovoked, started complaining about how he used to be a police officer but had to change career after the new president Volodymyr Zelensky had started to be more strict on corruption. This observation is in line with the low corruption index scores, presented in the literature review, that Ukraine got from Transparency International (2018) and the evidence from United Nations (2005). He explained that without the bribes it was hard to make a living and cover rent, which lead him to leave the job. The story in itself is not relevant to the due diligence process, and should further be taken with a grain of salt, but the high level of corruption in Ukraine that it illustrates is. Fredrik Adolfsson agreed and said that corruption is a reality in Ukraine that the buyer has to consider carefully in its due diligence process. Valentin, the driver, ended his discussion with stating that even though Zelensky's

policy changes were negative to his finances, he is positive that they will lead to a better economy for everyone in the end. This positive view was shared by Flodström who also said that the corruption is on its way down, but that it has a long way to go.

Further evidence of the problem with corruption was provided on the 20th of November when a large and organised political demonstration against corruption was observed outside of The National Bank of Ukraine (NBU). This event serves as a great reminder of the scale of the problem, but not in the way one might expect. Instead, as reported by Fitzgeorge-Parker (2019), the entire demonstration was orchestrated by the billionaire oligarch Ihor Kolomoisky in an attempt to create a "chaos of information". This chaos was intended to discredit and bury the fact that Kolomoisky himself is accused of embezzling \$5.5 billion, an accusation that was brought up by the NBU. However, in the due diligence of the target company Onlinico no signs of corruption was observed. But it is still important to consider the corruption factor in future due diligence of Ukrainian targets considering the current situation in the country, as discussed by several authors in the literature review (Fedoruk and Sozanska-Matviychuk, 2016; Leonard et al., 2016; Boyle and Winter, 2010).

In summary, the findings and analysis of the political factors shows that speed of the legislative changes and the risk of government involvement and corruption are risks that will have a more central role in the due diligence in Ukraine than it would in Sweden, especially for risk averse buyers. Firstly, there are evidence that a major regulatory which points out the importance that a buyer should closely review upcoming legislative changes that would highly affect the target company's profitability and the possibility to operate effectively. For example, when Flodström explains that the Ukrainian tax regulation system could change that will change the employment tax from 42% to 10-15%, already in 2020. This shows that the Ukrainian political and regulatory system has the capability to do changes in about a year. A change that would be impossible in Sweden, especially considering the extremely short time frame and such a gigantic change. Considering that the tax system now have a loop hole for private entrepreneurs, such a change could have a major impact on companies' corporate structures. Secondly, the literature study by (Leonard et al., 2016; Boyle and Winter, 2010; Kostyuk, 2003; United Nations, 2005) indicates the need to investigate governmental involvement as a part of the due diligence, which is non-existent part in Sweden. A buyer, especially a risk-averse buyer, should take into consideration the risk of not having protection against criminal organisations or low-level officials that could harm or affect the company's operation, such as corporate raiding and government hassle (Zabyelina and Buzhor, 2018). With a background of disintegration of the Soviet Union, the term *krysha* still a used informal word for protection or "roof" in Ukraine. Even if it is not as widely used as it was in the 90s, the feature of having the right contracts still exist and should be reviewed for minimising the risk of operational involvement by unwanted officials. The involvement of critical contacts with the government could exist in Sweden as well, but much fewer cases and with significantly lower risk than in Ukraine. Thirdly, the study shows several indications that corruption

exists in Ukraine and should be taken into consideration when conducting the due diligence of the target, especially of the management team. This includes performing thorough background checks in order to verify that no past unsolicited actions have been performed. The risk of corruption and fraud exist in Sweden as well but the study argues that these risks are tremendously higher in Ukraine. Lastly, the due diligence performed in Ukraine in general has to be more detailed since it is infeasible to transfer risks by virtue of signing guarantee packages, as would have been done in Sweden.

4.3 Data Reliability and Availability

It is clear from the literature review that Ukraine has a major transparency deficiency compared to Sweden (McGee, 2009; Transparency International, 2018; Kostyuk, 2003; Fedoruk and Sozanska-Matviychuk, 2016; Rosenbloom and Haimo, 1997; Business Sweden, 2019; Sundgren and Pannier, 2019), even though several sources claim that the situation is slowly getting better (Fedoruk and Sozanska-Matviychuk, 2016; Ostapiuk et al., 2017). The Swedish system comprises very extensive regulations that force all actors to reveal very detailed information on the operations and finances, data that is publicly accessible to everyone including potential buyers (Sundgren and Pannier, 2019; Business Sweden, 2019). In Ukraine, there are some regulatory statutes to enforce this, but it is significantly less than in Sweden. Fredrik Adolffson explained that the general quality of financial documentation in Ukraine is much lower than the Swedish counterpart. This leads to a difference in how due diligence must be performed. These findings are corroborated by the interview with Joris Hoogerdijk, CFO of Beetroot AB. Hoogerdijk discussed that the situation in Ukraine is significantly more difficult than in other European countries since the data availability is so limited, a statement that is confirmed by several sources (Fedoruk and Sozanska-Matviychuk, 2016; Kostyuk, 2003; McGee, 2009). Furthermore, Hoogerdijk explained that even in cases where data is made publicly available it is hard to interpret because the regulation does not adequately enforce clarity. The data can be very consolidated, making it useless to an outside party. This view was further supported by Adolffson. Besides the issue that data is not public, the general non-transparency pose a problem in the sense that it is often hard to know if other buyers are present, according to Hoogerdijk. He revealed that Beetroot AB has failed to identify competitors in previous acquisition opportunities which caused them to proceed too slowly, ultimately resulting in them losing the deal. This is corroborated by Sysoyev et al. (2019) who claim that the IT industry in Ukraine is a seller's market with ample potential buyers. These findings mean that there is a significant time constraint imposed on the due diligence process in Ukraine.

An additional difficulty in Ukraine that was discussed by Hoogerdijk are the complex corporate structures with legal registration in foreign jurisdictions that are common Sysoyev et al. (2019); Fedoruk and Sozanska-Matviychuk (2016). The target, in this case, Onlinico, LLC. is registered in the U.S.. Hoogerdijk discussed that in theory, it might have been useful to gather financial data from the US on the target, which is indeed available, but the problem in practice is that this data is very opaque. He

explained that this data usually only shows money transfers, but does not provide any deeper insight into how it relates to the operations. Besides being difficult to analyse, it is further complicated because it is likely not even complete. He explained that it is common that some transactions cross the border, while others are directed to private contractors in Ukraine. The foreign finances would thus not reveal the entire picture even if it could have been understood. No evidence to support this specific claim was found in literature, but based on the overall impression provided by the study and the fact that all other of Hoogerdijk's statements have been inline with the literature it seems like a plausible circumstance.

Adolfsson explained that the main difference in the due diligence process between Sweden and Ukraine is that the latter market contains, in general, more risks that have to be properly analysed. He argued that the main risks, besides the already discussed corruption, are linked to the financial documentation. Firstly, he explained, it is not a legal requirement to publish an official income statement. Instead the law focuses on the balance sheet. Adolfsson explained that this has the effect that most companies only have an internal, unofficial income statement. Even in the case that the firm decides to publish an official statement it will for this reason be less detailed. This means that the income statement contains fewer charge accounts, making it highly consolidated and hard to interpret. As a consequence, he argues that the buyer should focus on the balance sheet and the cash flows rather than the net income since this is harder to manipulate in the long run. None of these statements have been confirmed with other sources, but Adolfsson's personal abundant experience in Ukraine provides some assurance as to the reliability. Additionally, several sources have discussed the general deficit of the Ukrainian financial statements (McGee, 2009; Kostyuk, 2003; Transparency International, 2018).

To complicate matters more, according to Adolfsson, the (cultural) tendency to avoid taxation in Ukraine means that the risk of money flowing off the books is higher. Concerning the balance sheet, it is crucial to verify that all assets are actually owned by the company, as opposed to in Sweden where this can usually be assumed according to Adolfsson. This is supported by Business Sweden (2019); Sundgren and Pannier (2019). He further provided a personal experience that illustrates the need for double checking the documentation. He explained that in an acquisition for AGA, an industrial gas company that Adolfsson had previously been working for in Ukraine, they later found out that a large unknown asset on the balance sheet was actually a bunch of useless fridges. These fridges, that the target had got from a customer as a payment, had been kept in the balance sheet even if they should have been written off due to depreciation according to standard accounting principles since they were useless. This costly blunder occurred even though they had used external, specialised consultants during the due diligence. This examples shows just how consolidated a Ukrainian financial statement can be and why it is crucial to carefully analyse it.

A slightly contrastic view is provided by Hoogerdijk, CFO of Beetroot. He argued that even though one should always be aware of the fact that the documentation

likely does not cover the entire truth, in an attempt to avoid taxation, the numbers that are indeed provided are usually correct and trustworthy. This implies that if you are lucky enough to gather data that is sufficiently transparent, it is going to be useful. The problem is that this is usually not possible. It should be mentioned that the situation is starting to improve, much thanks to the deepened relations between Ukraine and the EU and IMF (Kushnirsky, 2014), which means that these differences between the due diligence in Sweden and Ukraine are likely to diminish over the next decade. However, in the current situation, the divide is significant enough to be carefully considered by all parties involved. To conclude, linking to the definition of transparency, the study finds that the volume and interpretability of available data are low in Ukraine. No consensus can be reached to explain whether the data is reliable or not and it seems to be context dependent.

Since data is not publicly available, at least not in a useful form, in either jurisdiction the buyer has to use other means of acquiring information when performing due diligence in Ukraine. In the interview with Hoogerdijk, he explained that no public data was used at all, neither in Ukraine nor from the US. All financial documentation was provided by the target company directly. An interview with Yuri Vatsyk, the legal counsel at Beetroot AB, revealed that the same was true for all legal documentation as well. As expected from the academic literature (Fedoruk and Sozanska-Matviychuk, 2016), no formal data room was used but instead, the data was provided more informally. This also meant that it was necessary to sign a LOI very early on in the process because without it close to nothing can be analysed. Vatsyk explained that in an ideal world a more thorough due diligence should be performed before the signing of the LOI, but in the case of Ukraine, it is simply not possible. The initial phase of the due diligence explained in the theoretical framework (Novikov et al., 2018; Benson and Shippy, 2013) in which the target is not a part of the process is thus close to non-existing in Ukraine, whereas in Sweden it is possible to gather a lot of knowledge already before approaching the target. The main source of information throughout the deal was acquired through onsite visits and by talking to the people.

The solution to the transparency problem, supported by both the literature review (Fedoruk and Sozanska-Matviychuk, 2016; Boyle and Winter, 2010) and the interview with Andreas Flodström, CEO of Beetroot AB, spells trust. Because a lot of information is not available, or at least not possible to retrieve without incurring significant transaction costs, the most efficient way to operate is by establishing mutual trust, according to Flodström. He explained that in order to decrease the risk associated with the trust based approach they made sure to negotiate an incentive structure that made sure to align Beetroot's interest with the prior owners. An interesting observation is that the initial meeting between the management teams of Beetroot AB and Onlinico, LLC. was held over dinner on Sunday evening rather than at the office on Monday morning. This very clearly illustrates that the entire deal relies on that a relationship is built between the parties. This is of course also important in an acquisition in Sweden, but the difference is that in Ukraine it is necessary whereas in Sweden it is still possible to perform the due diligence without

it.

The overall corporate dependency on relationships is further strengthened by the fact that Flodström was very clear on that the true value that they are acquiring are the humans, not any numbers or other tangible assets. He stated that his main goal with the initial meetings with the people working for Onlinico is to make them feel safe, rather than to try to extract monetary information from them. When asking Andriy S'omak, acting CEO at Onlinco, LLC., about the progress after an entire day of negotiations his only comment was that it "felt good". Nothing regarding anything tangible or monetary. This serves as a good indication that conducting business in Ukraine is, and has to be, built on relationships.

Further interviews with David Herdenberg, project manager at Beetroot AB, revealed how the initial screening also was performed based on prior relationships. He discussed that the main reason why the target was considered, to begin with, was because people working for Beetroot Academy was present in the region had previous connections with the target and knew about their operations. Herdenberg argued that this knowledge was crucial because such information is not accessible in any other way in Ukraine due to the lack of transparency Kostyuk (2003); United Nations (2005); McGee (2009). This further meant that the entire commercial due diligence was performed based on prior personal knowledge, either from in-house personnel or by connections. Overall, as discussed by both Flodström and Hoogerdijk, the due diligence performed was fairly modest. The reliance on trust meant that transaction costs were low, but that significant risks are involved since a lot of stones are left unturned. An important tool to build trust, discussed by both Flodström and Joelsson, was to verify data and statements provided by the target company via reference checking. In practice, this means that by outsourcing the verification to parties that you are already trusting, such as old mutual clients, you are in essence enlarging your network of trust. This methodology naturally requires that your network is vast enough before the deal to have mutual connections. Yet again this proves the point that networks and relationships are a crucial part of inadequate due diligence in Ukraine.

As discussed in the literature review the current condition in Ukrainian IT is that it is a seller's market (Sysoyev et al., 2019). This statement is corroborated by multiple independent interviews with staff at Beetroot AB, which signifies the importance. Besides Flodström and Hoogerdijk, this fact was supported by an interview with Semyon Bondarenko, Sales at Beetroot. They all made it clear that to secure an acquisition deal in Ukraine it is crucial to operate at a high pace. In practice, this meant that the due diligence was not performed as rigorously as they would have wanted in theory, in the sense that several data points were not double-checked. A key contributor to the speed of the process was that they had been given clearance from the board to go through with any deal that does not require external financing, without having all steps authorised explicitly by the board. This kind of board-management collaboration is crucial when considering the time constraints imposed in the Ukrainian climate and must be considered by all prospective agents

considering entering the market via acquisition strategies.

Due to the severe time constraints imposed it was important for Beetroot AB to be very selective in what kind of due diligence that would be performed. It is interesting in itself to analyse these choices. Besides the controls of financial statements, legal matters, operational matching and competence seniority of the people working for the target predicted by literature (Benson and Shippy, 2013; Novikov et al., 2018), the interviews revealed two new critical factors. Firstly, all respondents emphasised the utter importance of verifying the English level of the people working at the target company. They argued that because close to all revenues arise from foreign clients - more than 50% of the IT industry in Ukraine supports American clients (Sysoyev et al., 2019) - all developers must have at least a decent English level. Even though this is important for IT professionals in Sweden as well, it is nowhere near as crucial because of the greater existence of domestic clients. In practice, this means that during the due diligence in Ukraine it is not enough to simply understand if the people working for the target are adequate coders. Language tests or reference checking are necessary. The second new factor that the study revealed was brought up by Ivan Khomichuk, project manager at Beetroot AB. He explained that due to the historical political and social order in Ukraine, there exist large variations in company hierarchy structures. The old order tends to have very high, authoritarian hierarchy while more modern corporations are tending to form flatter organisations. This statement is true for the Swedish market as well, but Khomichuk argued that the difference in Ukraine is far greater due to the drastic political changes during the last decades. An important feature of the due diligence process in Ukraine is thus to identify and estimate any risks in this regard concerning the lack of fit between management styles.

In summary, the findings and analysis of the data reliability and availability provides several critical insights into the differences regarding the due diligence process in Sweden and Ukraine. Both the analysis and literature shows that high data reliability and availability are essential parts of any type of due diligence if transaction costs are not to become too severe. However, the study provides ample evidence to support that the data availability in Ukraine is considerably lower than in Sweden. This does not only incur greater transaction costs, but it also forces the process to be devised in a different way. Firstly, it means that the LoI has to be signed at a much earlier stage in Ukraine than in Sweden, since virtually all useful data is provided by the target. On the contrary, Sweden's widely publicly available data and transparency allow investors to do proper screening and preliminary due diligence before signing the LoI. Additionally the general reliability of data is lower in Ukraine, since it often does not portray the full picture. As a consequence, it is more common that deals in Ukraine are more trust-based to cope with the increasing costs of low data availability and the struggle to get a comprehensive correct overview of the company. The trust can either be built through previous partnerships, common friends or by connecting with the target's management team on a deeper level than you typically would do in Sweden. In general, the study provides ample empirical evidence to support that business in Ukraine relies heavily on relationships. How-

ever, this conclusion has limited foundation in the literature review, meaning that it might not be generalisable beyond the case study.

4.4 Key Takeaways and Impact from the Findings and Analysis

All things considered, the findings and analysis chapter shows that most of the case study findings have support in the literature. These case studies give some important nuance to understanding of the differences of the due diligence process in Ukraine and in Sweden, with focus on the Ukrainian process. The findings that stand out are that in Ukraine it is more important to build relationship, understand the corporate structures and be updated on upcoming governmental changes, and how to reduce the risk of corruption and corporate raiding, than it is in Sweden. When combining the case study findings and the comprehensive literature review, this study adds a new level of distinction that pinpoints and clarifies the differences between a due diligence process in Sweden and Ukraine. With the help of this study, Ukrainian policy makers can now have a clearer picture of which the largest gaps in the due diligence process are and should take actions to close these gaps if they would like to push their system closer to a more European Union standardised country like Sweden. Also, international investors that want to acquire a Ukrainian target can use these nuanced case studies as preparation material to increase their probability of a successful acquisition by avoiding pitfalls and focusing on the important target risks that are present for a Ukrainian target company.

5

Conclusion

The purpose of this report was to clarify how the due diligence process differs in Ukraine compared to Sweden, in terms of transaction costs and the practical implications. The conclusions are valuable insights for companies and policymakers active in the region. In its essence, the study concludes that a risk-averse buyer should in more detail, than a buyer in Sweden, consider to build relationship, understand the corporate structures and governmental changes and how to reduce the risk of corruption and corporate raiding when doing mergers or acquisitions in Ukraine. All these factors are types of extra transaction costs and practical implications that a buyer must consider when estimating the cost of the due diligence.

The main conclusion from the analysis of the legal and regulatory considerations is that the Ukrainian due diligence process, in this regard, is more complex and thus more time consuming than in Sweden. This is primarily due to the increased contractual complexity that has arisen in Ukraine due to severe legal loop holes. More specifically, the study has shown that some client contracts can be connected directly to the private entrepreneur and not to the main company which increases the complexity to get an overview of the finances, which is an interesting add to the current understanding presented by Fedoruk and Sozanska-Matviychuk (2016). Practically, this means that the transaction costs in Ukraine are higher than in Sweden in this regard. However, it is important to be aware of the fact that the analysis also indicates that the current tax system in Ukraine might soon change, which could fundamentally change how companies are structured and thus render this conclusion less accurate.

The literature study further shows that it is important to include a structured due diligence process to reduce the risk of government involvement, corruption and corporate raiding, since there is a higher risk of these factors in Ukraine. The need for such an extensive additional due diligence in Ukraine constitute a substantial extra transaction cost that would not be required in Sweden. Even if the study shows no empirical finding of in how much depth this due diligence is made, the substantial literature clearly show that there are several political risks that are more present in the Ukrainian business climate than in Sweden. With this in mind, the study suggests that a risk averse buyer should be aware of the risks that exists and take actions accordingly to mitigate these risks. Moreover, the study indicates that the

Ukrainian regulatory system can change much faster than the Swedish system and as a consequence, the buyer should stay updated on current news on any anticipated regular changes.

When it comes to data acquisition and reliability the study shows that most effective way to reduce transaction costs when gathering information in the due diligence process is through relationship building. By building relationship, a buyer could speed up the process because of mutual trust between both parties. The information gathered through relations are not only most efficient process to get the information, but sometimes the only way to get the information. Relationships are of course important in Sweden as well, but because of the low level of transparency in Ukraine it is even more so there. Moreover, this study indicates that the data availability in Ukraine is considerably lower. Sweden has the privilege of abundant public data, but that is not the case in Ukraine. Interestingly, evidence shows that even if the data is acquired in Ukraine it might not portray the full picture which requires either more due diligence or more trust. As a consequence, it is more common that deals in Ukraine are more trust-based. Theory states that with increasing trust the transaction costs decreases exponentially, which makes trust such a vital part of the due diligence.

In further studies, more in depth research ought to be performed in order to fully understand the inner workings of the Ukrainian M&A market. Besides expanding the research to cover also large deal sizes in other industries, thus providing insights for a larger audience, it would be of especial interest to investigate major differences between the countries with regards to other parts of the M&A topic. In light of the findings in this study, which points towards that relationships are the driving force of business conduct in Ukraine, it would be interesting to focus on the parts that involve human psychology. This includes an analysis of how the integration process and negotiation styles differs in the two countries. We believe that several large differences would be unveiled that are paramount for a foreign investor to be aware of before pursuing an acquisition.

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