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Networks in a protected business context: Licenses as restraints and facilitators

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Abstract

Taking the network approach developed in the Nordic countries as a point of departure (cf. [Håkansson, H. and Snehota, I. (1989). No business is an island. The network concept of business strategy, *Scandinavian Journal of Management 5* (3) 187–200.; Turnbull, P., Ford, D., and Cunningham, M. (1996). Interaction relationships and networks in business markets. An evolving perspective, *Journal of Business Marketing 11* (3/4) 44–62]) this paper seeks to explore how firms and networks are affected by high involvement by governmental authorities. A special focus is given to the regulating instrument of licenses. In two case studies of protected industries, the pharmacy and insurance industry, we find that licenses are restrictions but also facilitators for relationships and networks. Licenses render firms a certain degree of acceptance, define roles and positions in the network, and affects efficiency. Thus, although licenses can be seen as a restriction for firms it also becomes evident that they facilitate firms' activities related to operating and/or entering new markets.

Keywords: Licenses; Protected industries; Evolving networks; Governmental intervention

1. Introduction

Within industries characterized by a high degree of regulation, here referred to as protected industries, governmental authorities can control and permit firms' activities. In order to enter and operate within protected markets firms must gain and maintain a license. The implication for firms is that they must justify their existence and prove that their activities will fulfill the requirements. Thus, licenses are a means for governmental authorities to raise demands on firms and influence the business networks. As governmental authorities intervene in firms' activities, it becomes interesting to study what the effects on the network structure and relationship development are.

There are two assumptions within the network approach (cf. Håkansson & Snehota, 1989; Turnbull, Ford, & Cunningham, 1996) that are especially relevant when studying the influence of governmental authorities. The first assumption is that relationships develop through voluntary interactions between business actors. The second assumption is that environmental changes affect relationships through interactions in networks. Based on the first assumption, relationship formation is a process, where relationships evolve naturally through interactions based on exchanges of resources where the firm can choose to commit or not. However, the choice of committing or not to certain partners may not always be a choice (Aulakh, Kotabe & Sahay, 1996: 1066). Recent studies within the network field have shown that firms, due to resource dependencies, have often been more or less forced to interact (Ford, 2002; Gadde & Håkansson, 2001; Håkansson & Waluszewski, 2002; Möller & Wilson, 1995). Within protected industries, e.g. the pharmaceutical and insurance industries, governmental authorities have often intervened in the relationships. Therefore, protected industries provide examples of

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relationships and networks where the interaction builds on regulations and restrictions. Thus, governmental authorities' intervention has affected the whole industry and network structures therein.

According to the second assumption the environment consists of actors who are beyond the firm's network context and are perceived as being on the periphery. In line with the network approach environment is not seen as anonymous, rather it influences business networks through various interactions of resources. Möller and Wilson (1995) argue that the environment can be perceived differently between actors depending on the relationships in which they are involved as the environmental fluctuations are mediated through the relationships. "If one employs an approach that assumes a perceived or enacted environment, a distinction can be made between the environmental context of each interactant and their common context […]." (Möller & Wilson, 1995: 32) Although the environmental context is theoretically viewed as enacted through interactions, governmental authorities' direct effect on networks has empirically remained fairly unexplored. Government authorities are often viewed as an environmental variable and/or actors on the periphery. By studying the consequences of licenses issued by governmental authorities it is possible to learn how the environment affects the network of the firm.

This paper purports to make an empirical contribution to the network approach (cf. Håkansson & Snehota, 1989; Turnbull et al., 1996) by exploring governmental authorities' influence on business networks within protected industries. We aim to study how licenses as a regulating instrument affect network structures and relationships. The questions raised in this article are how networks evolve under pressure from governmental authorities and how licenses impact the development of relationships and networks in protected industries. We find in this exploratory study that the protected industries, e.g. pharmaceutical and insurance industries, provide an interesting platform for analyzing the direct intervention of governmental authorities. Governmental authorities' influence is analyzed from new angles as governmental authorities become part of business networks through their involvement.

2. Relationships, licenses and governmental influence

Within business networks resources and firms are seen as heterogeneous, where firms are dependent on other actors' resources for their own existence (cf. Salmi, 2000). In order to attain resources it is therefore necessary for firms to interact, which gradually creates interdependencies between firms (Johanson & Mattsson, 1988). Interaction between seller and buyer is thus a basic feature in networks (Blau, 1964; Mattsson, 2004; Gulati, 1998; IMP Group, 1982; Lorenzoni & Lipparini, 1999). Due to the interdependencies, an individual firm's effectiveness and competitive advantage does not solely rely on the behavior of the individual firm. Inter alia, the firm is also dependent on resources that other actors in the network control (Johanson & Mattsson, 1988).

Governmental authorities within protected industries control and govern business actors' activities within the market. Licenses are used to ascertain that firms do not violate the regulated and normative system (Jansson, Saqib & Sharma, 1990, Jansson, Saqib & Sharma, 1995). As firms need the license in order to act, licenses can be viewed as a resource that is needed for all actors within the market. The governmental authorities thereby become important actors by providing an essential resource (Kostova & Zaheer, 1999) that the license constitutes. This implies that licenses are a necessary means for operations, and thus, their importance can be compared to production or technology resources (Jansson et al., 1990). Thus, the governmental authorities create interdependencies within the market.

Relationships in networks are connected to each other and are therefore embedded in the environment (cf. Salmi, 2000; Uzzi, 1997). Embeddedness refers to the interdependence between actors and the connections between relationships, where the exchanges are dependent on other relationships. Depending on the nature of the exchanges the firm is embedded in different contexts and the market in the network perspective is therefore regarded as open, complex and dynamic (Mattsson, 2004). The market is viewed as an organic network where the structure evolves through enactment between autonomous actors resulting in ties and relationships (Håkansson & Snehota, 1995; McLoughlin & Horan, 2002; Snehota, 1990). Markets as networks imply that changes in the environment are experienced through relationships.

"Just as with every other investment decision, the decision to initiate a joint development project should be viewed as part of the strategic puzzle" (Håkansson & Snehota, 1995: 354). Hence, selecting a co-operation partner is, within the network approach, viewed as a voluntary choice for the firm based on an evaluation of the potential co-operation partner's resources, power, position and complementary activities. However, researchers have also argued that firms can frequently enter into relationships not built on free choice. One reason behind involuntary relationships can be that rules and regulations restrict the choice of interaction partner (Möller & Wilson, 1995). Thus, both voluntary and involuntary action takes place within the market, which can be related to the earlier discussion of resources. We can argue that voluntary interaction can become conditioned due to the characteristics of the market. In certain cases the governmental authorities can steer relationship development, which has also been stated by Aulakh et al. (1996: 1006) pointing to the fact that relationships can be mandated by governmental authorities. Some recent studies within the network approach actually pinpoint that governmental authorities intervene and affect the interactions in business networks within the area of technological development (cf. Håkansson & Waluszewski, 2002; Souder & Chakrabati, 1978). Within protected industries licenses as resources have an impact on all actors and influence the form of interaction. Mandated relationships can be viewed as a result of the license praxis within the market that is closely linked to the governmental authorities' influence on actors' behavior. The influence can therefore be direct, through well codified regulations that are actively taken into consideration in the decision-making process of firms. The influence can also be of a more