Network evolving processes in regulated contexts: Restraint or facilitator?

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Abstract

Relationship forming has traditionally mostly been described as a process where the firm chooses to commit or not. Taking the network approach developed in the Nordic countries (cf. Håkansson and Snehota, 1989; Turnbull et.al. 1996) as a point of departure this paper seeks to explore relationship and network development in regulated industries in order to study how firms are affected by high involvement by governmental authorities. The questions raised in this paper are how networks evolve under pressure from governmental authorities and how license applications impact the development of relationships and networks in restricted industries. We also intend to study how mandated relationships affect networks and individual firms within different industries. In two separate case studies building on qualitative research of the Finnish pharmacy industry as well as a foreign market entry of Swedish life insurance companies the impact of governmental authorities and the formation of relationships and the evolving of networks have a large impact on the industries. Licenses are within this paper not only found to be restrictions but also effect firms in positive aspects as the firms through the licenses also reach a certain degree of acceptance. Thus, although being a restriction it also becomes evident that the forced relationships will render a degree of legitimacy, which in turn will ease the process of entering and operating on a market.

Key words: Regulations, governmental authorities, network development

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Introduction

Within the network approach (cf. Håkansson and Snehota, 1989; Turnbull et.al. 1996) the focus has traditionally been laid on two basic assumptions. The first assumption is that relationships develop through voluntary interactions between business actors. The second assumption is that the environment is regarded as a peripheral factor affecting the interactions in relationships and networks. These networks are viewed open and widely embedded implying that relationships evolve naturally through interactions based on voluntary exchanges of resources. Relationship formation is thus a process, where the firm chooses to commit or not, and where the environment is the setting that is usually taken into consideration when changes occur. This is the foundation of the IMP approach.

Empirically one can question whether or not the view of relationships as naturally and voluntarily evolving can be taken for granted. The choice of committing or not to certain partners may not always be a choice (Aulakh, 1996:1066). There are examples of cases where relationships have developed both through voluntary interactions but also by being mandated. We argue that these networks provide an example where environment is embedded and is not peripheral. The cases that we present later in this article together illustrate how networks evolve within protected industries. Within these networks the interaction is based on certain rules and restrictions that have shaped the whole industry and parts of the network. These kinds of businesses will give good indications when studying how the networks evolve under intervention of governmental authorities.

Taking the network approach developed in the Nordic countries (cf. Håkansson and Snehota, 1989; Turnbull et.al. 1996) as a point of departure this article seeks to explore relationship and network development in protected industries in order to study how firms are affected by high involvement by governmental authorities. The questions raised in this article are how networks evolve under pressure from governmental authorities and how license applications impact the development of relationships and networks in protected industries. We also intend to study the effect of mandated relationships on networks and individual firms within different industries.

The network approach

Within the network approach resources and firms are seen as heterogeneous, where firms are dependent on other actor's resources for their own existence. (Salmi, 2000). Interaction between seller and buyer is thus a basic feature in the network view (Blau 1964; Mattsson, 2004; see also IMP Group, 1982; in Ford et.al. 2002). Interaction has become a corner stone to all research within IMP, and thus, research within the field is often referred to as the interaction approach of industrial markets. Markets in the network perspective are regarded as open, complex and dynamic and exchange in one relationship is dependent on exchange in other relationships (Mattsson, 2004).

Interdependence, commitment and trust have been identified to have a great importance to the continuity and outcome of relationships (Dwyer, Schurr, and Oh, 1987, Morgan and Hunt, 1994, Kumar, 1996). Referring to Morgan and Hunt (1994) they lead to co-operative behaviours that are conducive to success in relationships between companies as well as between people and individuals. The basic assumption within industrial relations is that they build on free initiative. Commitment and trust are earned during the time that long-term relationships develop. Especially the early stage in the development of buyer-seller relationships (see Ford 1980:66; in Ford et.al.2002) can have a great impact on the development of business relationships.

According to the interaction approach the marketing and purchasing of industrial goods is seen as an interaction process between two parties within a certain environment. The interaction model (see figure 1) (see IMP Group, 1982; in Ford et.al. 2002) illustrates the different interaction elements and thereby it presents the different research areas within the field. The model consists of four basic elements of interaction: 1) the interaction process consisting of elements and process of interaction, 2) the participants of the interaction process parties involved, including organizations as well as individuals, 3) the environment within which interaction takes place, and 4) the atmosphere affecting and affected by the interaction. Interaction is based on the assumption that the relationships in industrial markets are of long-term nature. Thus, the interaction process is based on long-term relationships and episodes within these relationships. Due to interdependencies, markets can be described as consisting of business relationships between actors where the individual firm's effectiveness and competitive advantage not solely relies on the behaviour of the individual firm. Rather, the firm is dependent on resources that other actors in the network control. (Johanson and Mattsson, 1988)

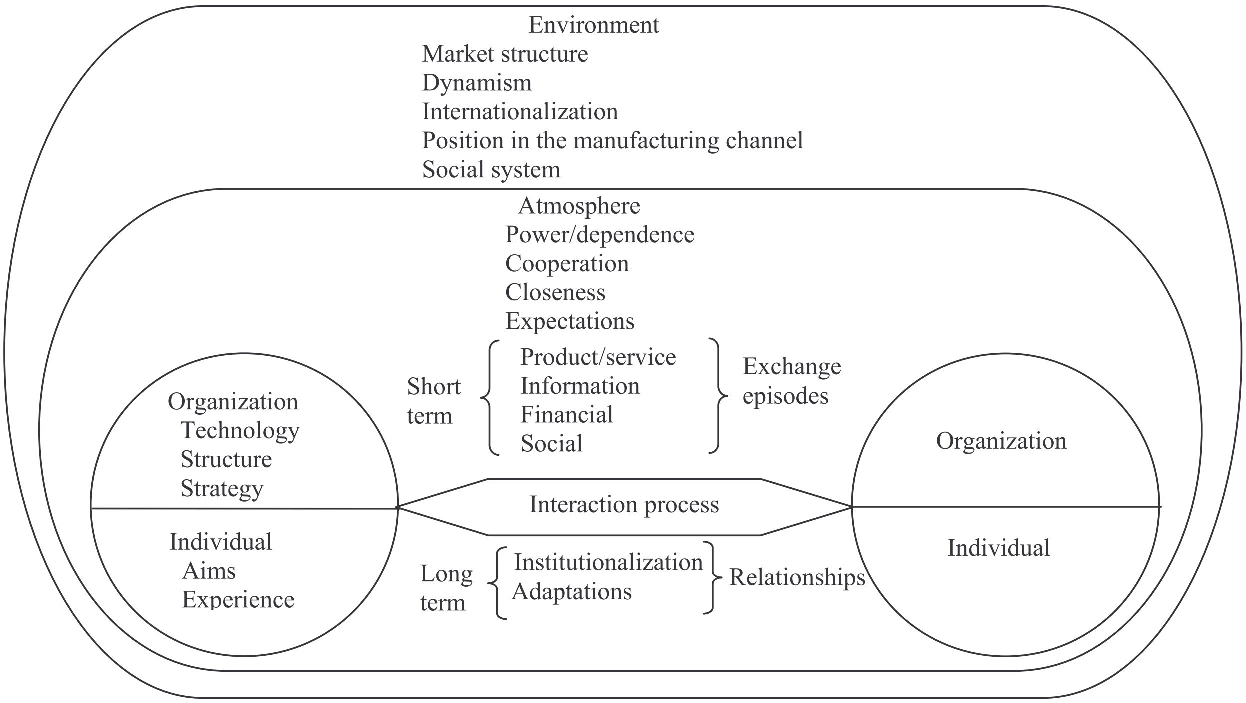

Figure 1: Interaction model (IMP Group, 1982; in Ford et.al. 2002)

Much attention has been given to important characteristics and factors within the four interaction elements. However, the environment of interaction has in some aspects remained less explored than the other elements. It has been stated that no interaction can be analysed in isolation and, thus, a wider context has revealed several aspects to be taken into account when analysing business networks. The wider perspective has included notions of market structures, dynamism, internationalization, positioning in the manufacturing channel and the social system that surrounds the studied relationships. In this study the element of environment is emphasized as an object for closer research, as we are interested in how the environment becomes an important actor and determinant in business relationships.

Selection of cooperation partner

"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 and Snehota, 1995:354). Within the network approach selecting a cooperation partner is traditionally seen as a voluntary choice for the firm based on an evaluation of the potential cooperation partner's resources, power, position and complementary activities. When discussing the choice of cooperation partners, the network approach touches upon the influence of the political situation on the selection process. Although mentioning the fact that the political situation and regulations can affect the choice of whom to cooperate with, this is often an ignored issue. This is symptomatic for the network approach, which tends to view regulations and other factors as external to the firm, referred to as the environmental context. Möller and Wilson (1995) point out that firms can enter into relationships not building on a free choice. One reason behind involuntary relationships can be that rules and regulations are restricting the choice of interaction partner. In certain cases the governmental authorities can steer relationship development, which was also argued by Aulakh et al (1996:1006) pointing to the fact that relationships can be mandated by governmental authorities. As this article is focusing on two sensitive and protected industries, i.e. the pharmaceutical and the insurance industry, we can expect that regulations will have

an effect on the choice of cooperation partner. Möller and Wilson (1995) argue that involuntary relationships can occur frequently but they have not further developed the question. Although forced relationships have been defined as evolving due to external forces such as in the case of regulations, we do not know much about this process in relation to the evolving process of a network.

Methodological concerns

In the empirical part of the paper, the business networks in protected markets have been analysed by applying a case study approach. The pharmaceutical industry and the insurance industry are both highly regulated. In order to enter the industry or operate in the markets actors need to have a licence that is issued by the governmental authorities. We find it interesting to study these two separate industries in order to explore the affect of governmental authorities on evolving networks. We will start with a short introduction of the characteristics of the two industries and thereafter present separate cases. Analysing the effects of regulations, case study method is especially suitable as it enables the researcher to capture the complex and many-sided phenomenon in its context. The chosen method is appropriate especially as we want to cover contextual, complex and multivariate conditions and not just isolated variables (Yin, 2003). The period of analysis spans over two time periods where the insurance case illustrates the early changes occurring within the insurance industry in the beginning of the 1990-ies. The second case illustrates the recent development within the drug retailing. Case studies are presented in the purpose of illustrating the effects of regulations and licences on networks. Consequently, the cases are not used in a comparative meaning but rather as complementing each other in the illustrations. Data has been collected through in-depth interviews with representatives within the industries and it has been complemented with secondary data, i.e. press releases and publications.

Regulations – a way to avoid market failure

In certain branches regulations are a necessary mean to avoid market failures. An argument put forward by governmental authorities for intervening with regulations is that there is a risk for insufficient markets. Hence, these markets have become protected. An example is the insurance industry, which in comparison to most other industries is highly protected and regulated (Hörngren and Viotti, 1994:187). Another example is the pharmaceutical industry where this is evident.

The risks in the two industries are double-edged in that they affect both the business actors as well as the end-consumers. Insurance companies on one hand will not be willing to supply the market with products when there is a risk for moral hazard or free riders. The customers on the other hand will not be willing to purchase insurance products when they perceive that the insurance companies' products or the organisations are not trustworthy or the price is too high. Hence, there is a risk that the supply and demand will not function and we can argue that there is a risk for market failure. One way for the governmental authorities to regulate the industry is by providing licenses for operations. Applying for a license requires that the insurance company can fulfill different requirements, e.g. on reinsurance (which in many countries regulates how the insurance money should be invested), and accounting standards, just to mention a few. By applying a system of licenses, consumers' uncertainty towards insurance companies can be decreased. In order for this system to work it is important that the insurance companies follow the contracts and therefore, the motive for using a governmental authority to issue licenses is necessary. (Hörngren och Viotti, 1994).

Pharmaceutical markets have a long tradition of protectionism, where it in the first place aims at protecting the consumers from drug abuse. It also protects the drug retailing system from becoming violated by actors within the health care sector. Drug retailing in Finland is organised through pharmacies, who are authorised to distribute and sell drugs to consumers within the market. Pharmacies are privately owned and governmental authorities and laws strictly control the business. Hence, the pharmacy industry provides an example of a market that has been regulated in many centuries. The drug retailing is a licence based activity and the whole pharmaceutical distribution in Finland is affected by several regulations, as e.g. regulations of pharmacies' margins, roles and responsibilities, distribution principles, pricing of drugs as well as product assortment and placement. Especially pharmacy margins and pricing of drugs are discussed when authorities want to control the business.

The two industries presented above provide examples of where governmental authorities intervene in order to avoid market failure or abuse or violence of the system. In the presented industries regulations can be seen as institutions that frame the markets and decrease the risks for abuse, moral hazard or free rider problems. It is therefore widespread within these industries, that operations are regulated by law through licenses as a way for the governmental authorities to ascertain that the actors will act in accordance to the prevailing regulations.

A case of an evolving network – entering a transition market

As an example of an evolving network, we have chosen to illustrate how a Swedish insurance company entered into the transitioning Poland. An insurance company's core object is to provide a system where customers' risks are pooled in order to decrease insurance takers' uncertainty and supply financial security in the case of accidental occurrences. An insurance policy is a financial contract between the customer and the insurance company where the risk is transferred from the customer to the seller. (Rejda, 1995:27) One type of insurance is life insurance, which is a complex type of products comprising a great variance of protections. Life insurance consists of four different types of protection: old age, sickness, accidents and death. The life insurance companies are responsible for insuring a safe future for the individual in the case of a long life or to secure the family members left behind. Life insurance companies are therefore often seen as a supplementary for governmental authorities' social security systems. In most countries within the EU privately financed insurance products are complementary to the state-financed pensions and are built into the social security system through mandatory savings. Due to the fact that the life insurance industry has a role as a financial planner and it is a complement to the state-financed pensions, the life insurance industry is well protected by governmental authorities. One way for the governmental authorities to regulate the industry is conducted by providing licenses for operations. Applying for a license requires that the insurance company can fulfill different requirements e.g. on reinsurance, which in many countries regulates how the insurance money are supposed to be invested, the accounting standards with different laws and regulations regulating how large the technical reserves have to be.

The story of a forced relationship

Studies of markets going from planned economy to market economy such as Russia, Poland, Estonia and other former planned economies show that the entry processes differ from the entries into Western European countries. One difference relates to relationships and networks. A consequence of transitions is that the network structure and the characteristic of relationships change (Salmi, 2000) from consisting of partial relationships into networks consisting of full-fledged relationships. The transition affects the networks in the sense that the changing conditions within the countries make the networks more turbulent than those in Western European markets. As a consequence local firms have to adjust to the change, meaning that they are facing competition. (Johanson, 2001) Furthermore, the transition opens up the country borders and foreign direct investments increase as a consequence. The changes in the market involve frequent entries and exits of firms, i.e. the networks are emerging and are constantly changing (Salmi, 2000). Due to the instability of the market, developing local business networks becomes even more important for the entrant, to compensate for the flaws of the local market and the existing institutions (i.e. flaws arising due to the transition from the planned economy to the market economy).

In the transition from planned economies into market economies, Eastern European countries' institutional settings had to be reformed in order to fit the market economy. Consequently, the role of governmental authorities has, with the reform of laws and regulations, gradually shifted from producer to regulator (Majone, 1997). Although political actors' role is gradually shifting, the role of the governmental organizations has not completely changed. It is still common in these countries that governmental authorities intervene in the market, especially in the case of foreign investments. Thus, the role of the governmental organizations has been emphasized by researchers focusing on foreign market entries into transition markets (Salmi, 2000; Törnroos and Nieminen, 1994).

Entering a foreign market for a life insurance company means that it has to apply for a license and adapt the operations in order to be in accordance to the governmental authorities' requirements. In 1995 a medium-sized Swedish insurance company decided to enter the Polish market. During the transition process the social security system was also being transformed into one where private savings were given a more important role. Seeing the opportunity of the new market the Swedish insurance company started to initiate discussions with one of the largest labour unions in Poland (with approximately 4,3 million members[2]). The idea was that the labour union would be the distributor, by selling insurances to its members. The project was to be set up as a joint venture.

After the contract had been signed the next step was to initiate the discussions with the governmental authorities on the process of receiving a license for the joint venture. The ownership issues turned out to be complicated to set up. During this time there was a law that restrained foreign investors from free ownership in Poland. According to that law, foreign investors were only allowed to own maximum 49% of the shares in Polish companies. The problem was that the Polish labour union could only finance shares corresponding to 10%, as their resources had been restrained by a sequestration due to a conflict with another labour union. Due to the restrictions on foreign ownership and the sequestration intensive discussions with the Financial Authorities concerning the ownership and financing issues now commenced in order to lobby for an exception from the restraints on the foreign ownership. During the negotiations with the Financial Authorities the Swedish insurance company realized that the Financial Authorities would not make any exception. Another solution was needed where an established Polish actor could fill in the gap. In searching for a business partner it was important to find one that would not risk becoming a potential threat to the operation. The Swedish insurance company came into contact with a Polish forest company through a bank that was handling transfer payments for them. The forest company was one of the bank's customers and it was willing to become a partner in the project. As a result of the new contact, a deal was made between the companies of cross-ownership and options. Hence, the Swedish insurance company received a license and it became the first Scandinavian insurance company to establish operations in Poland. (DI, 970820) The companies agreed upon that the labour union would distribute the insurance policies for a provision. The money earned from the sales was to be used to finance a repurchase of the shares from the forest company. The labour union would thereby be able to increase its owner shares as the insurance policies were being paid.

When the license application process was about to be settled, the Financial Authorities informed the Swedish insurance company of a slight problem. The Financial Authorities were facing a situation where a number of the smaller insurance companies were fighting for their existence and as a result of that too many licenses had been issued in the beginning of the transition of Poland. Quoting the chair of the Swedish insurance company (021108):

> *The Financial Authorities made us aware of the problem (expressing it nicely). One can say that if we had not bought [X] it would probably have taken much longer time for us to receive the license. They would of course not do anything illegal or in any other way act inappropriate as Poland had applied for a membership in the EU. But, they made us aware that Partner was to be bought and it probably made it easier to receive the license.*

This was also confirmed by the CEO of the Polish joint venture (000529):

> *The Financial Authorities were pleased about that [we] bought the non-life insurance company so that the Financial Authorities did not have to face another loss.*

Although the relationships in the case were not directly mandated, the Swedish insurance company perceived the situation as such. It was an indirectly expressed prerequisite to receive the license. The Swedish insurance company had originally aimed to enter the life insurance market together with the labour union as a joint venture partner. However, the result of the process was that they ended up in a situation, where they were acquiring also a non-life insurance company and had one more joint venture owner. The change is illustrated in figure 2 below. When the Swedish insurance company finally received the license, they said that they could now act more freely and that the barrier of being a foreigner was diminishing. Another consequence was that the Swedish insurance company could also distribute the life insurance products through the non-life insurance companies' distribution channels.

[2] The number of members was hard estimate as the members did not pay any fee, so this was an estimation. (CEO, 021108)

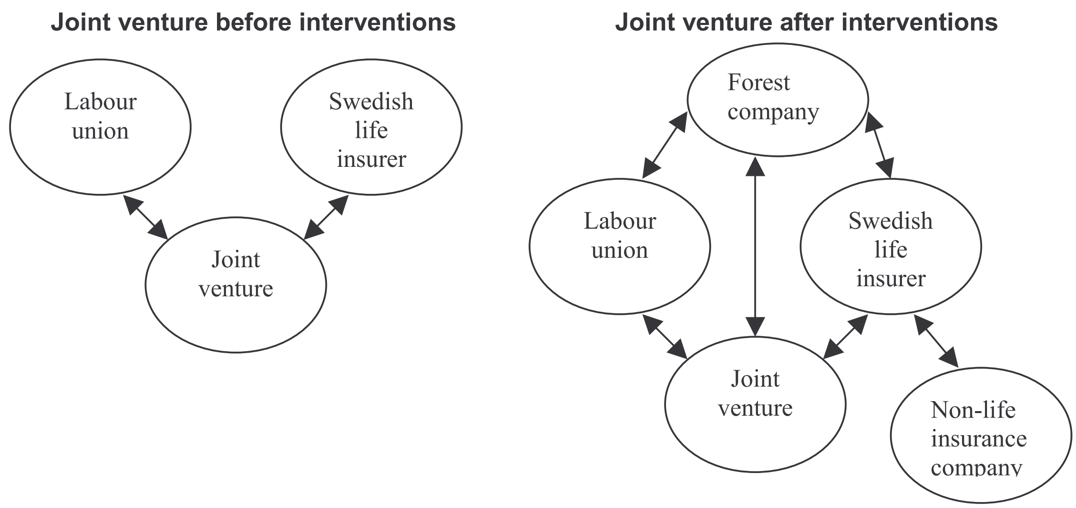

Figure 2: Network of the Swedish insurance company before and after

A case of an evolving network – operating in the domestic market

According to the Finnish legislation pharmacies have the sole right to distribute and sell medicines in Finland. The pharmaceutical industry is not only under the Finnish legislation but also under EU's administration and there can be identified some major factors affecting the activities of the pharmaceutical distribution. The whole pharmaceutical distribution industry in Finland, and in other European countries as well, is affected by several regulations, as e.g. regulations of pharmacies' margins, roles and responsibilities regarding wholesalers and pharmacies, distribution principles (single vs. multi-channel), pricing of medicines and cost-cutting of measurements on prescription of pharmaceuticals. All EU- and EEA-countries have the Good Distribution Practice as the guideline for defining the best practices of pharmaceutical distribution. National healthcare authorities usually decide them in accordance with article 10 of Council Directive 92/25/EEC of March 31st 1992. Thus, pharmacies are required by law to provide a comprehensive assortment of pharmaceuticals. Basically, the assortment of pharmaceutical products can be divided into three categories: drugs on prescription, drugs without prescription and other pharmaceutical supplies. According to the directives, pharmacies must always have a basic stock of drugs. The social security system is based on pharmacies' social responsibility to provide drugs within the society. Regulations are extremely hard with prescribed drugs. The drugs without prescription are less regulated and pharmacists can themselves decide what products they want to include in the assortment.

The distribution structure of pharmaceuticals in Finland is the so-called single distribution channel. Single channel distribution could be described as manufacturer-oriented, due to the fact that pharmaceutical manufacturers can choose between the existing wholesalers, which they want to use for the distribution of different pharmaceuticals. Manufacturers usually negotiate with one of the wholesalers for their entire product assortment and the choice of wholesaler is mainly based on economical matters. Pharmacies, in turn, place orders at all wholesalers for different products and negotiate the final prices with them, i.e. larger orders give reduced prices for pharmacies. Pharmacies are not allowed to buy drugs directly from the manufacturers, although they can negotiate special product campaigns. All drugs must be distributed via wholesalers. An exception can be made when pharmacies import own products from other countries. These products are not classified as drugs, merely as health products. In such cases pharmacies can act as a wholesaler for other pharmacies. Basically the single distribution structure indicates that wholesalers are just a middle-piece between two strong players who can negotiate also directly with each other, i.e. in case of marketing campaigns of drugs without prescription. Wholesalers' task is to deliver the products and both manufacturers and pharmacies are forced to deal with them. Figure 3 below illustrates the mandated relationship structure within the pharmaceutical distribution network.

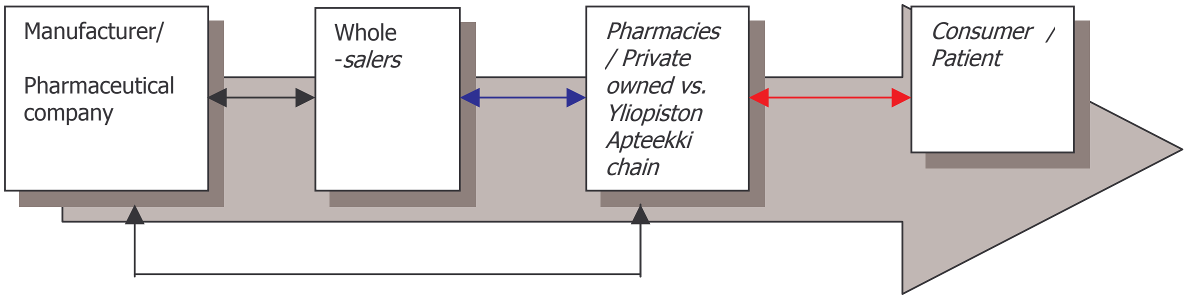

Figure 3: The pharmaceutical distribution in Finland

The Finnish pharmacy license system was created in 1883 and the same system is used even nowadays. All pharmacies in Finland are privately owned entities, except from one that is owned by the University of Helsinki. Under section 40 of the Medicines Act it is stated that a license from the National Agency for Medicines is needed in order to operate a retail pharmacy. The pharmacy license is personal and for lifetime but it cannot be inherited. The number of pharmacies in Finland is limited and each pharmacy owner has to have a license in order to practice the pharmaceutical retailing. For gaining the license and becoming a pharmacist (an apothecary), that person must have proper merits: a higher university degree in pharmacy and pharmacology and also several years of experience within the business. A new pharmacy license is permitted only if the existing pharmacies cannot provide services for all inhabitants within a certain area. The condition for a pharmacy to exist is in other words that it can serve a minimum amount of customers within a certain district. (Lilja, 2001) In 2004 there were totally 801 pharmacies in Finland, of which 602 were private owned, 181 were their subsidiaries and others were subunits of the university owned pharmacy. (Lilja, 2001, National Agency for Medicines, 2004:11)

The ethics and responsibility for good practice of medicine are strongly anchored to the distribution of pharmaceuticals. This has also reflected strongly in the development of the Finnish pharmacies. The regulations have restricted the amount of pharmacy licenses, which has created a very peculiar business environment. Actors within the network are given and they have to fit into the given structure. Since pharmacies' business has been restricted by many laws and regulations and protected by licenses, the whole business has become very sheltered. Traditionally pharmacies have been very independent units and there has hardly been any competition between them. Actually, competition between pharmacies and apothecaries was forbidden for a long time. Each pharmacy served for the main purpose of providing pharmaceuticals to its customers within its geographical area.

The future of single channel distribution structure in Finland has been discussed in several occasions. It has been compared to the multiple chain structure used in most of the European countries. The Finnish structure has been criticised by e.g. the European Union and the Finnish competition authority, Kilpailuvirasto, because it resembles a monopoly market with internal rules and regulations set by the actors themselves in the network. An even more obvious monopoly market can be found in Sweden, where change towards competition in the markets and deregulation is forced to take place in the future. Examples of deregulation processes from other countries, e.g. Norway, have created certain uneasiness and pressure for changes in the distribution channel structure in Finland. The main problem for any changes in the Finnish distribution system seems to be that the system is quite efficient as it is nowadays. It could always be improved but changing the structure would not automatically offer any improvements. The pressure from the outside for restructuring the business via deregulations has resulted in the restructuring of the pharmacy business from the inside out. The threat of deregulation can be seen in the pace that the pharmacy business is changing. Competition over customers is a relatively new phenomenon as well as the idea of building strategic networks within the field. The private owned pharmacies have now started to cooperate with each other and pharmacy chains have started to develop. Separate pharmacies are becoming more and more dependent on each other, which has not been the practise before. However, they cannot cooperate as freely as they would like to. They still have to act according to the legislation, structure and licence practice within the industry.

Summarizing the cases

As we have illustrated the two cases in this paper, we have been able to observe that governmental authorities intervene in the network structures and operations. Traditionally the intervention has been defined as a restraint for business interaction. However, we also want to argue that although the intervention can be a restraint it can as well be a facilitator. Consequently, we will in our analysis discuss both sides of the coin and emphasize the importance of acknowledging both aspects.

Analysis

A common factor for the cases above is that they both are examples of highly protected industries, where the governmental authorities intervene in the evolving network structures. In both cases the industries are part of the society's social security system, which gives the governmental authorities an interest to secure that consumers are protected. As has also been shown within the cases, licenses can be used as a tool for governmental authorities to affect the network structures, e.g. through defining products, geographical location, accounting standards, basic product assortment. Licenses within the insurance industry define the product characteristics and operations. This means that when the license application is turned in the insurance company has to commit to the stated business activities. The activities and the insurance product cannot be changed after that. Within pharmacies the license gives the right to operate a retail pharmacy but it also obligates pharmacists to posses a basic product assortment in order to operate.

Insurance companies and pharmacies have also two separate roles, where they have to balance between the social responsibility and business management. Social responsibility refers to the social security system within which both actors are included. The license authorizes the insurance companies and pharmacies to act within a critical area in the society. Therefore, their task is two folded. They have a social responsibility to act according to the generally accepted norms and values in the society. Simultaneously they are bounded to act according to the rules and regulations stated by the governmental authorities. Besides of the ”burden” of the social responsibility, the companies also have to survive within the business context. The restricted industry imposes certain demands but also provides possibilities for actors to take advantage of. As we have noticed in the cases, all actors within the studied industries must have a license in order to operate within the field. This implies that the amount of actors and hence, the amount of competition, is limited. Licenses provide actors with legitimacy to operate within the networks and they also provide access to the networks when entering a market. Thereby, it can be argued that governmental authorities' involvement does not only restraint the actors but also facilitate them.

Restraints

Taking the pharmacy and the insurance industries as examples of protected markets we are able to see how the actors are restrained in the choice of cooperation partner. The restrictions are affecting the operations on different levels; from the types of interactions to the network as a whole. Within the pharmacy industry interactions between actors are restrained in the sense that the distribution structure is defined. Another example is the product placement, which is also regulated. Lifting this to an interaction and network level we argue that the regulated product assortment affects the choice of whom to cooperate with. This is also evident in the case of the insurance industry. The laws regulating products defines the types of financial planning that are allowed, i.e. regulating insurance policies and restraining the operations. Once an insurance company has received a license to act within the life insurance industry, they are not allowed to start operations within non-life insurance without a new application. Hence, licenses restrain operations and affect the path dependence of these firms both in terms of operations as well as relationships.

The two cases illustrate how actors are forced into relationships and network structures through different restrictions. In the insurance case the entrant formulated that they were “made aware” of the non-life insurance company that was in need of a new owner. Buying the non-life insurance company meant that the Swedish insurance company started operating within another market than planned for.

A consequence was that the Swedish insurance company had to take the distribution of non-life insurance products as well as the distribution of life insurance products into consideration, where the latter had already been negotiated with the Polish labour union. Hence, the network of the Swedish insurance company was extended. Consequently, the imposed ownership affected the evolving network contexts of the Swedish insurance company. The restriction on foreign ownership was another factor affecting the evolving network. The restraints forced the Swedish life insurance company to engage in a relationship with a forest company in order to solve the ownership structure of the joint venture.

Within the pharmacy industry we find another type of restriction where the distribution is defined and restrained by the license to operate a pharmacy. The number of actors and types of relationships within the distribution are consequently restricted by the licenses. A manufacturer or a wholesaler is not allowed to apply for a pharmacy licence. Only a private person can apply for it. The number of licences is also restricted and controlled. This implies that the governmental authorities mandate actors' position in the network. Thereby they define the relationships in the distribution channel of pharmaceuticals through pharmacy licences. Restrictions related to licenses are directly affecting the evolving networks within these two industries. Through the restraints on distribution channels and ownership, the two cases demonstrate that actors are forced into certain relationships and hence, positions within networks. The role and function is consequently affected as the actor is pushed into these positions and roles through legislations or coercive pressures from the governmental authorities. This is definitely contradicting the network approach where position and roles are seen as developed through voluntary interactions. Instead we can argue that positions, roles and networks may be mandated and forced by governmental authorities.

Facilitators

As we have been able to observe, there are many restraints followed by the governmental involvement within the industries. But as much as the restraints have formed the industries, the actors within them have also learned to act accordingly. If we take the licenses as an example, all actors within the studied industries must have a license in order to operate within the field. This implies that also the amount of actors, and hence, the amount of competition is limited. The limitations are not necessarily a negative feature. They can also be seen from a positive perspective, i.e. as a facilitator for business. While all actors need a license from the governmental authorities, it gives simultaneously a joint status among the actors. It is a sign of that an actor has been accepted as a member within a group of professionals or firms. In the case of pharmacy industry, actors operate within a small and restricted network and they know the other actors. Therefore, they do not need to search for partners among numerous different candidates. Actors can also be assured of that the partners are competent in their work. It is a matter of legitimacy that is created within the industry. Although the regulations restrain the relationships and create a mandated network structure, even that can be seen as a facilitator once you are inside of the group of license holders. Governmental authorities have through their action created barriers of entry for the studied industries. Simultaneously, these barriers shelter the business inside and enable the networks to develop in their own peculiar way.

The environment is observed to be part of the operations within the studied industries. It is not just a peripheral actor, in contrary it is present in all operations. Whereas rules and regulations within many other industries would be perceived as a threat, these industries provide an example where they have created a clear structure for operations. In pharmacies the rules about product assortment and placement provide a clear business structure to follow. Drugs with prescription must be handled by pharmacists, while the other drugs and pharmaceutical supplies can be sold in the pharmacy shop. While the pharmacy concept is clear it is also easy to communicate with the consumers, i.e. marketing efforts towards consumers become easier and the structure gives a basic platform for pharmacies to operate within. As the network relations in the distribution channel are mandated and the roles and positions are given, it also assures that the distribution is efficient. It can be argued that the efficiency could always be improved but changing the structure would not necessarily offer any improvements. Within the insurance industry the license procedure demands that the business concept has to be well planned before entering the business. Again, although the relationships may be partly mandated, it also gives an access into the network with a clear business concept. Through the license process the Swedish insurance company also gained access to parties that became important for the future distribution within the foreign market. In other words, the license process made it easier for the actors involved to develop the operations after the entrance.

Theoretically these two cases set the IMP argument of relationships as naturally evolving into a new light. The environment has always certain settings and demands that will effect, both restrict as well as facilitate, business networks although this may not be as evident as in the case of protected markets. Relationships are the premise for firms' existence in networks and therefore, we can question whether the nature of business relationships is voluntary or not. Hence, taking the argument of networks evolving based on voluntary action we could turn the argument around. Furthermore, regulations within the IMP approach are usually defined as restrictions for resource exchange and viewed as a hindrance for the network development. As we have been able to see, licenses as a form of regulation, can also function as a facilitator for business relationships. Although the regulations force actors into mandated relationships within the protected markets they are also the premise for the firms' existence within the network.

Conclusions

The question raised in the introduction was how network evolve under pressure from governmental authorities. This was highlighted by two cases of protected industries, the insurance and pharmacy industries. In both cases actors have been forced into certain relationships exemplified by defined distribution channels, product assortment or implicit requirements connected to the license application. As we have been able to see, the networks have evolved and are evolving all the time within the studied industries. The circumstances for operations are different from many other relationships. When analyzing the cases it becomes apparent that the environment is part of the business, not an outsider or intruder. Intervention from the governmental authority directly affects the network evolving processes. One could here expect to find that this would imply negative consequences, but as shown in the cases governmental involvement in networks is two folded. It can be argued that governmental authorities' involvement does not only restraint the actors but also facilitate them.

There are thus always two sides of the same coin. Both case studies have shown that licenses should not only be seen as a restraint, but rather as something that provides actors with legitimacy to operate within the networks. The license becomes the driver's license and gives access to the networks i.e. entering and operating in the market. Therefore, there exist two types of relationships within the studied industries: voluntary and involuntary. The cases have shown that relationships that are based on involuntary ground and basically forced can turn out to be very fruitful. They can also look like forced relationships from an outsider's perspective, but actually they are well-planned actions taken by the actors. Consequently, we would like to argue that both types of relationships are needed within the industries. Protected industries are like restricted ecosystems where actors find their way to survive and live. The environment is part of the system and the actors are aware of it all the time. Actors are balancing between the social responsibility and business thinking.

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