



Timo Järvensivu

VALUES-DRIVEN MANAGEMENT IN STRATEGIC NETWORKS:

A CASE STUDY OF THE INFLUENCE OF ORGANIZATIONAL VALUES ON COOPERATION

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SUMMARY

This study focuses on values-driven management in the context of strategic networks. My starting point for the study is the notion suggested by a number of network researchers that shared values play a key role in developing network cooperation. Further, several organizational researchers have agreed that values-driven management can improve organizational cooperation.

I set three research aims for the study. The first was to critically assess whether – and if so, how – organizational values and their congruence influence the successfulness of network cooperation. The second aim was to generate a new definition of values-driven management that would be applicable in strategic networks, and the third aim was to elaborate on potential means of network-level values-driven management.

A strategic network is here defined as intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic business goals. Network management refers to the means by which network members influence each other and the network as a whole to improve network cooperation. The successfulness of network cooperation, in turn, is defined as the extent to which voluntary and reciprocal acts by network members contribute to the achievement of the network's jointly agreed goals.

Organizational values are defined in this study as beliefs held by organizational actors (individuals or groups of individuals) about desirable end states or modes of behaviour, which serve as the basis for making choices. Values-driven management refers to the process by which the core values of the organization are determined and their value congruence increased.

As my research strategy I chose a qualitative single-case study approach, since this seemed a suitable method for addressing the research aims. The empirical case is a Finnish industry association called Pharma Industry Finland (PIF), which supervises the industrial policy interests of the research-based pharmaceutical industry in Finland. The case data consist of interviews with 20 top managers and influential members of PIF, as well as archival data.

An analysis of network cooperation within PIF revealed four major cases of cooperation, each consisting of two to four subcases. Altogether 10 subcases were identified. Successful cooperation was found in five subcases, whereas cooperation in the other five was unsuccessful. The analysis further revealed four groups of values that influenced the success of network cooperation in the 10 subcases: profit-making and performance orientation, ethicality, social responsibility, and aggressiveness.

The findings show that values influenced network cooperation within PIF in three different ways. Firstly, congruent values had a positive effect on network cooperation in some cases. Secondly, there were cases in which incongruent values had a negative influence on cooperation. Finally, and most interestingly, congruent values had a negative impact on network cooperation in some cases.

Hence, the findings indicate that a congruent value can have both a positive and a negative influence on network cooperation. An incongruent value, on the other hand, can affect the successfulness of network cooperation at least negatively. And, though there were no subcases in which an incongruent value had a favorable influence on network cooperation, this type of influence is still theoretically conceivable.

These findings suggest that any given value, regardless of whether or not it is congruent within the network, can have either negative, positive, or no influence at all on the

successfulness of network cooperation depending on the context of that cooperation. In light of this general conclusion it is evident that values-driven management – i.e. selecting organizational core values and then working to increase value congruence – is not as such applicable in strategic networks. My findings, in fact, suggest that increased value congruence may also have negative consequences in terms of network cooperation.

Values-driven management might, however, be applicable in strategic networks if we adopted a new, broader definition of it. Consequently, this study proposes a definition of network-level values-driven management as a means by which management can increase awareness and understanding of organizational values among the network members in order to sensitize and prepare them for positive and negative effects that values may have on their cooperation.

This new definition acknowledges (i) that network members are likely to have values with varying levels of congruence and incongruence, (ii) that value congruence and incongruence may have both a positive and a negative influence on the successfulness of network cooperation depending on the context of the cooperation, and (iii) that it is often difficult to “manage” organizational values in a strong sense. The new definition implies that the ultimate goal of values-driven management should not be to increase value congruence, but to increase network members’ awareness and understanding of their differing values and of how they can affect cooperation within the network. This will help members to avoid potential problems and take corrective measures when necessary.

The current study also suggests certain analytical tools and strategies for network-level values-driven management. The tools include two-by-two matrices by which network managers can evaluate the effects of congruent and incongruent values within the network on the successfulness of cooperation. The proposed strategies include several suggestions on how to amplify or reduce the influence of values on network cooperation.

Key words: strategic networks, network management, organizational values, values-driven management

TIIVISTELMÄ (SUMMARY IN FINNISH)

Tässä tutkimuksessa tarkastellaan arvolähtöistä johtamista strategisissa yritysverkostoissa. Tutkimuksen lähtökohtana ovat verkostotutkimukset, joiden mukaan verkoston jäsenten jaetut arvot vaikuttavat verkoston yhteistoiminnan kehittymiseen ja onnistuneisuuteen, sekä organisaatiotutkimukset, joiden mukaan arvolähtöisellä johtamisella voidaan parantaa organisaatioiden yhteistoimintaa.

Tutkimuksessa asetettiin kolme tutkimustavoitetta. Ensimmäisenä tavoitteena oli arvioida kriittisesti vaikuttavatko arvot ja niiden yhtenäisyys tai epäyhtenäisyys verkoston yhteistoiminnan menestyksellisyyteen – ja jos vaikuttavat, niin miten. Toisena tavoitteena oli muodostaa määritelmä strategisten verkostojen arvolähtöiselle johtamiselle, ja kolmantena tavoitteena kehittää verkostojen arvolähtöisen johtamisen keinovalikoimaa.

Strategisella verkostolla tarkoitetaan tässä tutkimuksessa tietoisesti kehitettyä ja johdettua vähintään kolmen organisaation välistä yhteistoimintaa, jonka tavoitteena on saavuttaa yhteisesti hyödyllisiä strategisia liiketoiminnallisia tavoitteita. Verkoston johtamisella tarkoitetaan puolestaan keinovalikoimaa, jonka avulla verkoston jäsenet vaikuttavat toisiinsa ja verkostoon kokonaisuutena parantaakseen verkoston yhteistoimintaa. Verkoston yhteistoiminnan menestyksellisyydellä tarkoitetaan puolestaan astevaihtelua sen suhteen, missä määrin verkoston jäsenten vaapahtoiset ja vastavuoroiset toimenpiteet edistävät tai häiritsevät verkoston yhteisten tavoitteiden saavuttamista.

Organisaatioiden arvot määriteltiin organisaation toimijoiden (yksilöiden tai ryhmien) toimintaa ohjaaviksi uskomuksiksi siitä, mitkä ovat tavoiteltavia päämääriä tai toimintatapoja. Arvolähtöinen johtaminen määriteltiin puolestaan prosessiksi, jossa ensin valitaan ydinarvot ja sitten pyritään lisäämään arvojen yhtenäisyyttä.

Tutkimusmenetelmäksi valittiin laadullinen yhden tapauksen tapaustutkimus. Tutkimuskohteeksi valittiin Lääketeollisuus ry (Pharma Industry Finland; PIF), joka on Suomessa toimivan, tutkivan lääketeollisuuden elinkeinopoliittisia asioita ajava yhdistys. Tutkimuksen empiirinen aineisto koostui 20 henkilön haastatteluista, jotka kohdistuivat Lääketeollisuus ry:n sekä sen vaikutusvaltaisimpien jäsenyritysten ylimpään johtoon. Lisäksi empiirisenä aineistona hyödynnettiin dokumenttimateriaalia.

Lääketeollisuus ry:n toiminnan analyysissä nousi esiin neljä yhteistoimintatapausta, joista kukin sisälsi kahdesta neljään alitapausta siten, että alitapausten lopullinen kokonaismäärä oli 10. Näistä alitapauksista viidessä yhteistoiminta oli menestyksekkästä ja lopuissa viidessä yhteistoiminta ei ollut menestyksekkästä. Analyysissä nousi esille lisäksi neljä arvoryhmää, jotka näyttivät vaikuttavan verkoston yhteistoiminnan menestyksellisyyteen: tulosarvot, eettisyys, yhteiskunnallinen vastuu sekä aggressiivisuus.

Yhteenvetona analyysin tuloksista voidaan todeta, että verkoston jäsenten arvot vaikuttivat yhteistoiminnan menestyksellisyyteen kolmella eri tavalla. Joissakin tapauksissa yhtenäisillä arvoilla oli positiivinen vaikutus yhteistoiminnan menestyksellisyyteen. Joissakin tapauksissa epäyhtenäisillä arvoilla oli negatiivinen vaikutus yhteistoiminnan menestyksellisyyteen. Lisäksi joissakin tapauksissa yhtenäisillä arvoilla oli negatiivinen vaikutus yhteistoiminnan menestyksellisyyteen.

Yleisenä johtopäätöksenä voidaan näin ollen todeta, että yhtenäisillä arvoilla voi olla sekä positiivisia että negatiivisia vaikutuksia yhteistoiminnan menestyksellisyyteen. Lisäksi voidaan todeta, että epäyhtenäisillä arvoilla voi olla ainakin negatiivisia vaikutuksia yhteistoiminnan menestyksellisyyteen. Vaikka analyysi ei paljastanut sellaisia yhteistoimintatapauksia, joissa epäyhtenäisillä arvoilla olisi ollut positiivisia vaikutuksia

yhteistoiminnan menestyksellisyyteen, niin myös tämänkaltainen vaikutus on teoreettisesti perusteltavissa.

Näyttäisikin olevan niin, että mikä tahansa verkoston jäsenten yhtenäinen tai epäyhtenäinen arvo voi vaikuttaa verkoston yhteistoiminnan menestyksellisyyteen niin positiivisesti kuin negatiivisestikin. Tämän perusteella on selvää, että arvolähtöinen johtaminen prosessina, jossa ensin valitaan arvot ja sitten lisätään niiden yhtenäisyyttä organisaation jäsenten kesken, ei sellaisenaan sovi strategisten verkostojen johtamiseen. Itse asiassa näyttäisi siltä, että arvojen yhtenäisyyden lisääminen voi olla jopa haitallista verkoston yhteistoiminnan menestyksellisyyden näkökulmasta.

Strategisten verkostojen arvopohjainen johtaminen on kuitenkin mahdollista, jos määrittelemme tämän käsitteen laajemmin kuin se on tähän asti määritelty. Tässä tutkimuksessa ehdotetaan, että arvolähtöinen verkostojohtaminen tulisi määritellä keinovalikoimaksi, jonka avulla verkoston johto pyrkii lisäämään verkoston jäsenten tietämystä ja ymmärrystä verkoston eri toimijoiden arvoista, minkä tavoitteena on herkistää ja valmistella verkoston jäseniä niille positiivisille ja negatiivisille vaikutuksille, joita arvoilla voi olla verkoston toimivuuteen.

Tämä laajennettu määritelmä ottaa huomioon, että (i) verkoston jäsenillä on useita erilaisia arvoja, joiden yhtenäisyys ja epäyhtenäisyys vaihtelee verkoston sisällä, (ii) arvojen yhtenäisyys ja epäyhtenäisyys voivat vaikuttaa sekä positiivisesti että negatiivisesti verkoston yhteistoiminnan menestyksellisyyteen eri yhteistoiminnan konteksteissa, ja (iii) on usein vaikeaa todella “johtaa” organisaatioiden arvoja. Lisäksi tämä laajennettu määritelmä korostaa, että arvolähtöisen johtamisen päämääränä ei tulisi olla arvojen yhtenäisyyden kasvattaminen, vaan arvoihin liittyvän tietämyksen ja ymmärryksen kasvattaminen verkoston jäsenten keskuudessa. Näin verkoston jäsenet kykenevät varautumaan mahdollisiin ongelmiin sekä ryhtymään toimenpiteisiin yhteistoiminnan parantamiseksi.

Tässä tutkimuksessa tuotettiin myös useita analyysityökaluja ja strategioita käytännön arvolähtöiseen verkostojohtamiseen. Ehdotetut analyysityökalut koostuvat nelikenttämatriiseista, joiden avulla verkostojen johtajat kykenevät arvioimaan, miten verkoston erilaiset yhtenäiset ja epäyhtenäiset arvot vaikuttavat verkoston yhteistoimintaan. Ehdotetut arvolähtöisen verkostojohtamisen strategiat sisältävät puolestaan useita toimintaehdotuksia, joiden avulla verkostojen johtajat voivat joko vahvistaa tai heikentää arvojen vaikutusta yhteistoiminnan menestyksellisyyteen.

Avainsanat: strategiset verkostot, verkostojen johtaminen, organisaatioiden arvot, arvolähtöinen johtaminen

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Helsinki, December 2006

Timo Järvensivu

TABLE OF CONTENTS

Summary.....	i
Tiivistelmä (Summary in Finnish).....	iii
Acknowledgments	v
Table of contents	vi
List of figures.....	ix
List of tables.....	ix
1 Introduction.....	1
1.1 Background and knowledge gap.....	1
1.2 Research purpose, questions and expected contribution.....	5
1.3 Introduction to the research strategy and research process.....	7
1.4 Structure of the study.....	11
2 Theoretical background: Networks, values, and management.....	12
2.1 Strategic networks and their management.....	12
2.1.1 Background: Network research	12
2.1.2 Definition of strategic networks	13
2.1.3 Definition of networks of collective action	17
2.1.4 Definition of network management and network cooperation	21
2.2 Organizational values.....	27
2.2.1 Background: Organizational cultures	27
2.2.2 Definition of organizational values and value congruence.....	29
2.2.3 Antecedents and outcomes of organizational values	32
2.3 Values-driven management	35
2.3.1 Background: The paradigm of strong cultures	35
2.3.2 Towards a wider perspective on managing cultures.....	36
2.3.3 Definition of values-driven management	41
2.3.4 Values-driven management in networks	45
2.4 Summarizing the theoretical framework: Values and network cooperation.....	48

3	Research strategy: A case study of Pharma Industry Finland (PIF)	52
3.1	Moderate constructionism as worldview	53
3.2	Abduction as research approach	54
3.3	Single-case study as methodological tool	57
3.4	Quality of the study: Validity and generalizability	59
3.5	Empirical case: Pharma Industry Finland (PIF)	64
3.5.1	Introduction of the empirical case	64
3.5.2	Case selection	69
3.5.3	Case design	71
3.6	Data collection and analysis	76
3.6.1	Collecting the data	76
3.6.2	Analyzing the data	83
4	Empirical analysis: Values and cooperation in Pharma Industry Finland	89
4.1	Espoused values and values-driven management in PIF	89
4.1.1	Congruence and incongruence of espoused values in PIF	90
4.1.2	Espoused values-driven management in PIF	94
4.1.3	Espoused values in PIF	99
4.1.3.1	Profit and performance orientation	101
4.1.3.2	Ethicality	104
4.1.3.3	Social responsibility	106
4.1.3.4	Aggressiveness	110
4.1.4	Summary of espoused values and values-driven management in PIF	112
4.2	Cooperation on legislative issues (PRSI legislation)	114
4.2.1	Background on PRSI legislation	114
4.2.2	General acceptance of PIF's two-level agenda for changing the legislation	117
4.2.3	Increased political pressure to cut medicine costs and PIF's reactions	128
4.2.4	Key changes in PRSI legislation and PIF's reactions	131
4.2.5	Competing business interests of PIF members with regard to reimbursements ...	135
4.2.6	Summary: Cooperation on PRSI issues	137
4.3	Cooperation on voluntary control of marketing of medicinal products	139
4.3.1	Background on the control of medicinal marketing	139
4.3.2	Successful cooperation in drawing up the new Code of Marketing	141
4.3.3	Unsuccessful cooperation at the level of marketing practice	143

4.4	Cooperation between research-based and generic companies	152
4.4.1	Overall cooperation between research-based and generic companies	152
4.4.2	Cooperation on the law on generic substitution	161
4.5	Cooperation between Orion and foreign research-based companies	167
4.5.1	Overall successfulness of cooperation	167
4.5.2	Unsuccessful cooperation on one of PIF's PR campaigns	173
4.6	Summary and discussion of empirical findings	177
4.6.1	Espoused values versus actual values in PIF	177
4.6.2	Connections between values and network cooperation in PIF	180
4.6.3	Potential for values-driven management in PIF	183
4.6.4	Validation of empirical findings: Follow-up discussion	185
5	Conclusions, limitations and future research	188
5.1	Brief summary of research purpose and empirical results	188
5.2	Theoretical conclusions	190
5.2.1	Context-dependency of the influence of values on cooperation	190
5.2.2	New definition for network-level values-driven management	192
5.2.3	Analytical tools for network-level values-driven management	195
5.2.4	Strategies for network-level values-driven management	200
5.2.5	Summary of theoretical conclusions	205
5.2.6	Linking the theoretical conclusions to prior theory	206
5.3	Managerial implications	208
5.4	Limitations	209
5.5	Directions for future research	214
	References	216
	Appendix 1: PIF's activities relating to PRSI issues	232
	Appendix 2: Letter to interview prospects	238
	Appendix 3: Interview guide	239
	Appendix 4: Examples of quotation translations	240
	Appendix 5: List of interviews	242

LIST OF FIGURES

Figure 1. Research process.	10
Figure 2. Model of organizational values and their main antecedents and outcomes.	33
Figure 3. Theoretical framework for studying values-driven management in networks.	49
Figure 4. PIF organization in May 2004.	65
Figure 5. Map of PIF's internal and external networks.	68
Figure 6. Case design: An embedded case study with four primary cases and ten subcases. ...	72
Figure 7. Impact of context on the influence of values on cooperation.	191
Figure 8. Factors linked to amplifying or reducing of the influence of values.	201

LIST OF TABLES

Table 1. List of interview prospects.	77
Table 2. Interview themes and their purpose for data collection and data analysis.	80
Table 3. Summary of the theoretical definitions of the key concepts.	83
Table 4. Operationalization of the key concepts.	84
Table 5. Generic tool for analyzing the relationship between cooperation and values.	86
Table 6. Cooperation and values regarding PRSI legislation.	127
Table 7. Cooperation and values regarding increased pressure to cut medicine costs.	130
Table 8. Cooperation and values regarding changes in PRSI legislation in 1992-2004.	134
Table 9. Cooperation and values regarding competing business interests in PRSI issues.	137
Table 10. Cooperation and values regarding issues relating to PRSI issues.	138
Table 11. Cooperation and values relating to the voluntary control of marketing.	149
Table 12. Cooperation and values between research-based and generic companies.	160
Table 13. Cooperation and values related to the law on generic substitution.	166
Table 14. Cooperation and values between Orion and foreign, research-based companies. .	172
Table 15. Cooperation and values related to PIF's PR campaign.	176
Table 16. Summary of values and cooperation in PIF.	178
Table 17. Summary of values and their influence on cooperation.	181
Table 18. Task-dependent analysis of values and cooperation in a network.	196
Table 19. Different modes of values-driven management in different situations.	197
Table 20. Tool for analyzing the strength and direction of the influence of values.	199
Table 21. Basic strategies of network-level values-driven management.	202
Table 22. Values and cooperation between Nokia and its supplier network.	211

To Marjaana and Emma

1 INTRODUCTION

1.1 Background and knowledge gap

Business networks are increasingly important sources of competitive advantage for contemporary business organizations. Companies enter into business relationships and networks in order to exploit and develop their resources and to create and maintain a competitive advantage (Möller and Halinen 1999; Faulkner 2003). Networks may emerge for a number of reasons – e.g. to achieve flexibility, capacity, and speed in seizing opportunities, to access resources, skills, and information, and to provide a hedge against uncertainty (Ebers 1997; Faulkner 2003). From the late 1970s until the beginning of 1990s, research on business networks focused mainly on the characteristics of network cooperation (e.g. Håkansson 1982; Håkansson and Snehota 1995; Turnbull et al. 1996). In the mid 1990s, the focus shifted increasingly from understanding business networks to understanding their management (Ritter et al. 2004).

Business networks have been studied from various perspectives and varying backgrounds. Araujo and Easton (1996), for instance, identified 10 different schools of network thought drawing from different disciplines. The current study builds mainly upon two streams of network research. To begin with I refer to studies that follow the industrial networks

approach (INA, also known as the IMP group, see e.g. Håkansson 1982; Turnbull et al. 1996; McLoughlin and Horan 2002). Secondly, I refer to research which studies networks as strategic and/or value-creating networks (see e.g. Miles and Snow 1984; 1986; Jarillo 1988; Snow et al. 1992; Gulati et al. 2000b; Parolini 1999; Möller et al. 2005; Möller and Svahn 2003).

The industrial network approach tends to look at networks from the viewpoint of industry-wide macro networks (or from the perspective of “markets-as-networks”). Such networks are structures in which a large number of actors are connected to each other in a pattern of direct and indirect relationships which ties them together. Further, the industrial network approach often sees these networks as uncontrollable and unmanageable – companies can only cope within such networks (e.g. Håkansson and Ford 2002). In contrast, the strategic/value networks approach focuses on intentionally created nets of actors (e.g. Möller et al. 2005; Gulati et al. 2000b; Parolini 1999). A strategic network is a sub-set of an industry-wide macro network, often created or coordinated by a hub organization. According to this approach it is also possible to manage these networks. The polarity of the two viewpoints on networks and network management – the industrial networks approach and the strategic/value networks approach – can be attributed to the difference between emergent networking and deliberate networking, respectively (Möller and Svahn 2003; Ritter et al. 2004).

My study focuses on management of *strategic business networks*, although I will also refer to studies representing the industrial networks approach. Following Gulati et al. (2000b), Jarillo (1988) and Möller et al. (2005), I define a strategic business network as intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic business goals. The case network of the current study – Pharma Industry Finland (PIF) – is a particular type of strategic business network, *a strategic network of collective action*, which refers to intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic changes in their environment. Environment, again, refers to the economic, socio-political, and legal environment of the network.

My perspective on the manageability of networks is pragmatic. As a starting premise, I assume that strategic networks can be managed and that the extent to which a firm can manage its network(s) lies somewhere within a continuum between full control and no control at all. This perspective is in line with the viewpoint taken by e.g. Möller et al. (2005). I define *network management* as the means by which network members influence each other and the network as a whole in order to improve network cooperation. *Network cooperation*, in turn, is defined as voluntary and reciprocal acts by the network members towards jointly agreed network goals.

Network cooperation can be improved by multiple means – e.g., communication, decision, and negotiation mechanisms, social coordination and control, integration and linking roles and units, common staff, hierarchy and authority relations, planning and control systems, incentive systems, selection systems, information systems, and public support and infrastructure (Grandori and Soda 1995). Shared organizational values are one potential means to manage network cooperation; a number of relationship and network studies argue that shared values play an important role in developing and maintaining network cooperation (Dwyer et al. 1987; Jarillo 1988; Ring and Van De Ven 1994; Morgan and Hunt 1994; Wilson 1995; Achrol 1997; Welch and Wilkinson 2002; Wilkinson and Young 2005). These studies suggest, often implicitly but also explicitly, that network cooperation might benefit from *values-driven management*, i.e., from management based on organizational values in order to improve organizational cooperation.

Organizational values are defined in this study as beliefs held by organizational actors (individuals or groups of individuals) about desirable end states or modes of behavior, which serve as the basis for making choices (see e.g. Connor and Becker 1994). Values thus help to determine how organizational actors should behave in a certain situation. *Values-driven management*, in turn, is the practice of managing cooperation between actors by managing their values. Several academic studies and management books suggest that organizational values can be managed in order to enhance (intra)organizational cooperation (e.g. Kilmann et al. 1986; Collins and Porras 1991; O'Reilly and Chatman 1996; Blanchard and O'Connor 1997; Puohiniemi 2003). Values-driven management is defined by these and many other writers as a process whereby an organization first determines a set of core values that it seeks

to follow and then implements various practices to increase value congruence within the organization.

The above definition of values-driven management is not shared by all researchers in the field of organizational studies. Martin and Meyerson (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002) have identified three different perspectives on organizational cultures and their management. Seeing values-driven management as a process of selecting core values and increasing value congruence is based on one of these – *the integration perspective* – which I will at times also refer to as *the paradigm of strong cultures*. Researchers embracing this perspective argue that organizational culture can and should be managed, and that the target of cultural management is to create a strong culture with highly congruent values.

The two other perspectives to organizational culture – *fragmentation* and *differentiation* – question the basic assumptions of the integration perspective. In particular, they challenge the assumptions that a strong organizational culture is always for the good of the organization and that organizational cultures can be managed. Yet, the integration perspective has largely dominated the research and discussion on values-driven management (Martin and Frost 1999). For this reason I used it as a starting point for my study. However, I will also utilize the fragmentation and differentiation perspectives in order to critically assess the assumptions of the integration perspective on values-driven management.

Values-driven management, specifically as defined by the integration perspective, or the paradigm of strong cultures, seems to have gained popularity as companies worldwide are claiming that they have “core values”. For instance, according to a recent study by the Finnish Central Chamber of Commerce, the majority of Finnish companies report having determined their own core values (Keskuskauppakamari 2004); the percentage of such companies had increased from 68% in 1999 to 81% in 2003. Of course, other similar studies may report different growth rates depending on how the survey questions have been formulated (e.g. Lehtinen and Ahola 2002). Nevertheless, it seems that there is an increasing worldwide trend in business and other organizations to utilize values-driven management as defined by the integration perspective.

In summary, many relationship and network studies have suggested, often implicitly but also explicitly, that values-driven management can improve network cooperation (e.g. Dwyer et al. 1987; Jarillo 1988; Ring and Van De Ven 1994; Morgan and Hunt 1994; Wilson 1995; Achrol 1997; Welch and Wilkinson 2002; Wilkinson and Young 2005). This makes *network-level values-driven management* a relevant object of study which has, however, been almost completely neglected by academic researchers. Sagie and Koslowsky (1998), for example, offer a review of values-related studies at different levels of analysis (i.e. at the individual, group, company, national, and multinational levels). But they, too, fail to address the network level (i.e. the interorganizational level). Further, Welch and Wilkinson (2002) offer a review of network studies by the IMP group, pointing out that these have focused mainly on three dimensions of networks – actors, resources, and activities (the ARA model) – while only little research has been conducted on a another dimension of business networks: schemas or ideas, including shared values. A notable exception is the research by Lindfelt (2004) and by Lindfelt and Törnroos (2006), who discuss the role of ethical issues and ethical embeddedness in business networks. Nevertheless, there is a gap in our understanding of values-driven management in the network management context.

1.2 Research purpose, questions and expected contribution

In the previous section I motivated the study by highlighting the gap that exists in our knowledge and understanding of values-driven management in the context of network management. Consequently, **the purpose of the current study** is to increase our understanding of the concept, the practice, and the usability of network-level values-driven management.

The research purpose sets the general directions for this study. In pursuing its purpose, I have continuously defined and redefined my specific research questions to capture the essential aspects of the studied phenomenon as they emerged during the research process as a result of my theoretical and/or empirical investigations. I will now present the research questions as they evolved along the process.

First, at the very beginning I set out to critically assess whether values-driven management could be applied at the level of a network of organizations – and if so, by what means. As already noted, values-driven management is defined according to the integration perspective as a process whereby an organization tries to improve organizational cooperation by first choosing a set of core values that it seeks to follow, and then by implementing various practices to increase congruence of these values within the organization. The direct application of values-driven management at the *interorganizational* (i.e. network) level would mean an attempt by the network to improve network cooperation by determining network-level core values and by improving value congruence among its members. Consequently, a basic assumption behind the applicability of values-driven management at the network level is that greater value congruence can improve cooperation at the network level.

However, after initial theoretical reviews and empirical observations, I came to question whether there was enough evidence to support the above assumption. – Yes, it is conceivable that high value congruence will sometimes improve network cooperation; but is it not also possible that it will not always lead to better network cooperation? Could it be that high value congruence might occasionally even have a negative effect on the successfulness of network cooperation? I realized that to assess the applicability of values-driven management at the network level I needed a better understanding of the relationship between value congruence and successful network cooperation. This led to my first research question:

RQ1: What is the influence of value congruence on the successfulness of network cooperation?

Second, building on the understanding gained in pursuing RQ1, I began to elaborate on the idea of values-driven management in a network. This deliberation generated a proposal for a new definition of both the concept and the practice of values-driven management in a network context, and so I set two further research questions:

RQ2: What are the key characteristics of network-level values-driven management?

RQ3: What are the potential means of values-driven management at the network level?

This study aims to answer the above three research questions and thereby to contribute to network research as well as to research on organizational values and values-driven management. In terms of network research, the contribution relates to an emerging theory of *values-driven* network management. From the perspective of organizational values and values-driven management, the aim is to contribute to an emerging theory of *network-level* values-driven management.

1.3 Introduction to the research strategy and research process

As discussed above, the objective of this study is to gain a better insight into the concept of network-level values-driven management, its practice, and its usability. To achieve this, I focused my research questions on the influence of value congruence on network cooperation and on the characteristics and means of values-driven network management. Research questions like these obviously call for a research strategy aiming at theory generation; they were designed to critically assess and elaborate on the existing conceptual and practical bases of network-level values-driven management. The research strategy of the current study was, therefore, chosen with the demand of theory generation in mind. Accordingly, ontological and epistemological worldview of the study is *moderately constructionist*, the research design is based on a *single-case study* approach, and the research process followed the logic of *abduction*. This section gives a brief description of these choices; a more detailed discussion is provided in Chapter 3.

The worldview of this study is closer to a constructionist as opposed to a positivist paradigm (e.g. Lincoln and Guba 2000; and Schwandt 2000). Tikkanen (1996) actually notes that this kind of constructionist philosophy of science is widely held in current Nordic research on business networks. It looks at reality from a more or less subjective and situation-specific

point of view, in which the researcher's interpretations are inevitably influenced by the chosen analytical and theoretical frameworks, the activities of both researcher and informants, and the context of the research setting. Thus, the knowledge produced by this kind of network research should be regarded as context-specific and socially constructed. (Tikkanen 1996)

The current study, however, is not a pure constructionist or a discourse study. Rather, it follows the perspective called *moderate constructionism* (Kvale 1995, 21; Schwandt 2000, 198-199, would call this "weak constructionism"), an ontological and epistemological outlook that lies about halfway between constructionism and realism. Moderate constructionism rejects the notion of a universal truth but acknowledges the possibility of specific local, personal, and community forms of truth. Scientific knowledge is considered as a product of social negotiation processes, but not exclusively as a matter of social negotiation (Longino 2002, 203).

My research design is based on a single-case study approach. **The case** of this study is *Pharma Industry Finland (PIF)*, an industry association which supervises the policy interests of the research-based pharmaceutical industry in Finland. Its objectives are to improve the competitiveness of the industry, develop its research, and enhance its overall operating environment both in Finland and the EU. At present PIF has about 70 members, covering almost all of the pharmaceutical companies involved in research, manufacturing, and marketing of medicinal products in Finland.

Although PIF met the selection criteria for an empirical case for the current study, it is not the type of strategic network I originally intended to study. In terms of a theoretical definition, PIF is *a strategic network of collective action*, which I define as intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic changes in their environment. My initial goal was to focus on *a vertical strategic network* – like the strategic demand-supply networks of Nokia, IKEA, or Toyota – as I thought such a case could yield results that would be more “generalizable” across different kinds of strategic networks. Nevertheless, although PIF is a strategic network of collective action instead of a vertical demand-supply network, I will

later provide evidence that the results of this study are also generalizable to vertical demand-supply and other kinds of networks.

As a collective-action network, PIF is engaged in multiple activities. Its strategic tasks are to influence legislation relating to medicinal products and sickness insurance, to create and maintain communication and public relations, including publications and statistics of the pharmaceutical industry, and to engage in activities related to voluntary control of medicinal marketing. In this study I concentrate on two of these key tasks: influencing the legislation on medical products and sickness insurance, and voluntary control of medicinal marketing.

The research process of this study followed the logic of *abduction* rather than induction or deduction – more particularly, a process which Dubois and Gadde (2002) call *systematic combining*. Systematic combining is especially suitable for single-case research which aims at theory development, as is the goal of the current study. The approach involves two processes: matching of theory and reality, and directing and redirecting the study. Matching is about moving back and forth between the framework, sources of data, and data analysis. By directing and redirecting the study the researcher achieves a matching of theory and reality, as new aspects of reality emerge, pointing in new directions both in terms of theory and empirical data. Systematic combining is inherently *abductive*: it is neither inductive nor deductive, but something in between.

I started the research for this study in autumn 2002 (see Figure 1) with the vague idea of studying “organizational values” in the context of “business networks”. At this point I still had neither specific research questions nor a specific research purpose in mind. Instead, I began by reading various kinds of literature concerning business networks and organizational values. During 2003 I formulated and reformulated the research purpose, which eventually evolved into research questions in the course of the study process. As soon as the research purpose had been formulated, I started building my research strategy. By the beginning of 2004 I had a good idea of what I was going to study and how I was going to do it.

In early 2004 I began to look for an empirical case that would match my research interest. I approached a number of potential case networks by contacting representatives of their

supposed hub companies. After several attempts and failures I realized that I had to widen my search for a candidate network to avoid wasting extra time. In spring 2004 I finally contacted Pharma Industry Finland, and quickly came to the conclusion that this was a suitable choice for the empirical case of my study.

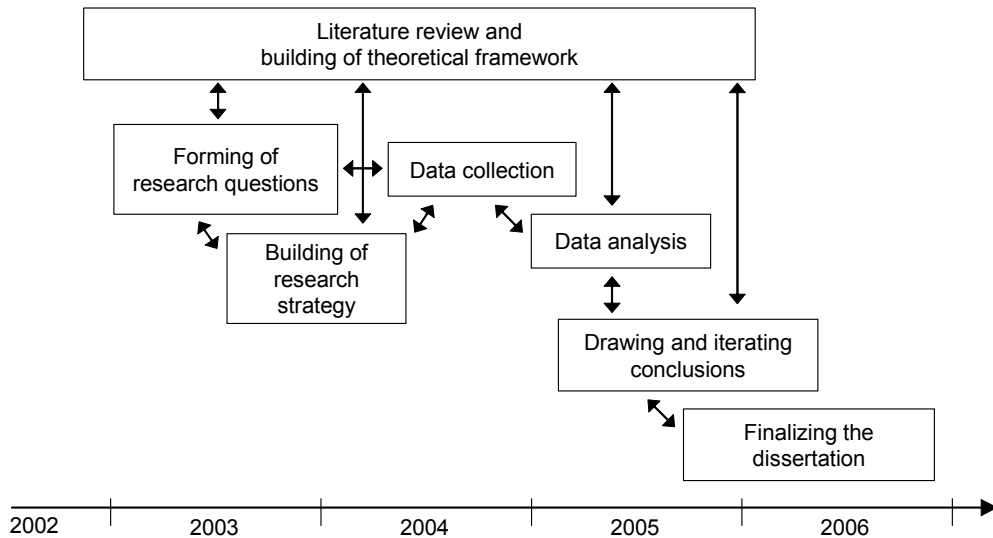


Figure 1. Research process.

Data collection for the study began in summer 2004. First, I collected archival data in order to get to know PIF and to provide a background for preparing myself for the interviews. I made the interviews during autumn 2004 and January 2005. Most of 2005 went into analyzing the data and drawing and iterating conclusions. Finally, the study and this report were finalized in late 2005 and during 2006.

1.4 Structure of the study

The above sections of Chapter 1 have motivated this study, introduced the research questions, presented my expectations for the contribution of the study, and briefly described the research strategy and the research process.

Next, Chapter 2 presents the theoretical background of the study and defines its key concepts. I conclude the chapter by summarizing the theoretical framework of the study and discussing its linkages to the research questions.

Chapter 3 describes my research strategy and the study's ontological and epistemological worldview, research approach, methodological choices, empirical case including its selection and design, and the data collection and analysis process.

In Chapter 4, I present the findings of the empirical analysis. I start by describing the different kinds of values of the network members and go on to discuss whether and how they have applied values-driven management. Next, I present the subcases of network cooperation and the influence of network members' values on the success of network cooperation in each subcase. Finally, I summarize the empirical findings.

Chapter 5 first presents the theoretical conclusions, managerial implications, and limitations of the current study, and then discusses opportunities for future research.

2 THEORETICAL BACKGROUND: NETWORKS, VALUES, AND MANAGEMENT

This chapter describes the theoretical background of the study and defines its key concepts: strategic networks and their management in Section 2.1, organizational values in Section 2.2, and values-driven management in Section 2.3. A summary of the theoretical framework is presented in Section 2.4.

2.1 Strategic networks and their management

2.1.1 Background: Network research

Interorganizational networks have been studied from many different perspectives and many different theoretical backgrounds. For instance, Araujo and Easton (1996) distinguish 10 approaches to network research depending on their respective focus areas: social networks, interorganization theory, actor-network theory, networks of innovators, network organizations, policy networks, networks in economic geography, comparative studies, entrepreneurship studies, and industrial networks. In another extensive literature review, Grandori and Soda (1995) identify several major lines of studies that are related to network

research: industrial economics, organizational economics, organizational sociology, organization studies on networks, negotiation analysis of networks, resource dependence views on networks, institutional embeddedness perspective on networks, radical and Marxian studies, social network theory, population ecology models, and industrial marketing perspective on networks.

The current study borrows mainly from two of the network disciplines identified above. First, much of the literature that I refer to has its roots in the industrial networks approach. This approach evolved during the 1970s and 1980s with the Industrial Marketing and Purchasing (IMP) project and has since produced a wide array of research (see e.g. Ford 1980; Håkansson 1982; Håkansson and Snehota 1995; Axelsson 1995; Turnbull et al. 1996; McLoughlin and Horan 2002; Ford 2002). Second, I also draw from the literature within the network organization or the strategic/value-creating networks approach (see e.g. Miles and Snow 1984; 1986; Jarillo 1988; Snow et al. 1992; Gulati et al. 2000b; Parolini 1999; Möller et al. 2005; Möller and Svahn 2003). The reason for my focus on the above two is that these disciplines have especially concentrated on business networks, the focus of the present study, and both include research with some connection to organizational values (e.g. Jarillo 1988; Morgan and Hunt 1994; Wilson 1995). The boundaries of these different network schools are not easy to determine, however, and occasionally I also rely on sources that cannot be traced back to the above two disciplines.

2.1.2 Definition of strategic networks

In its most abstract definition a network is a “structure where a number of nodes are related to each other by specific threads” (Håkansson and Ford 2002, 133). Iacobucci and Hopkins (1992, 5) define a business network in a similar vein as a “composite of a larger number of actors and the pattern of relationships that ties them together”, and Holmlund and Törnroos (1997, 304) as a “set of connected actors that perform different types of business activities in interaction with each other.”

Dyadic interactions can be considered as a special case of these networks. However, since all relationships are socially and historically embedded in larger networks, individual

relationships cannot be understood in isolation from other relationships; we must therefore be careful not to reduce or to atomize the level of network analysis to a single dyadic relationship (Halinen and Törnroos 1998; Granovetter 1992; Turnbull et al. 1996; Anderson et al. 1994).

A business network can also be seen as an intermediary or alternative form of governance between pure markets and pure hierarchies, where “two or more firms which, due to the intensity of their interaction, constitute a subset of one (or several) market(s)” (Thorelli 1986, 38; see also Jones et al. 1997). From this viewpoint, a business network provides flexibility and reciprocity, which give it the benefits of the market and of hierarchy (e.g. efficient information gathering and monitoring, repeated transactions), but at the same time protect it from transaction hazards of the market (e.g. hold-up problems, search and enforcement costs) and of hierarchy (e.g. free riders, measurement and coordination costs) (Park 1996).

Companies enter into business relationships and networks so that they can exploit and develop their resources, and create and maintain a durable basis for a competitive advantage (Day 2000; Faulkner 2003). Indeed, networks may emerge for a number of reasons: to provide efficiency, flexibility, capacity, speed in taking advantage of opportunities, access to resources and markets, skills and information, and hedging against uncertainty (Faulkner 2003; Möller et al. 2005). Not all relationships are beneficial to a company, however. The development of partnerships is resource-intensive, and companies can be closely involved with only a limited number of partners – which, in turn, leads to a strong dependence between them (Gadde and Snehota 2000).

There are various kinds of business networks. Miles and Snow (1984; 1986) and Snow et al. (1992), for example, write about *dynamic networks* that often emerge around hub or lead firms and typically rely on a core skill like manufacturing, R&D, design, assembly, or brokering. Achrol (1997) identifies several kinds of networks: (1) *vertical market networks* or *marketing channel networks*, which correspond to the traditional supplier-manufacturer-distributor channels organized around focal organizations, (2) *intermarket* or *concentric networks*, which are networked alliances among firms operating in a variety of industries and are characterized by their dense interconnections in resource sharing, strategic decision

making, culture and identity, and collective action (e.g. the Japanese *keiretsu*), and (3) *opportunity networks*, which are market-driven networks of organizations formed around a marketing company that specializes in collecting and disseminating market information, negotiating, coordinating projects for customers and suppliers, and regulating product standards and exchange behaviors within the network.

Möller, Rajala, and Svahn (2005; see also Möller and Svahn 2003) recently constructed a very useful, theory-driven framework for classifying different types of networks. Referring to notions of value-creating systems (e.g. Parolini 1999), they argue that the underlying characteristics of the value system and its level of determination provide a key to an understanding of different business networks and the managerial capabilities they require. On the one hand, there are *stable value systems* with well-known and well-specified activities and resources; on the other hand, there are *emerging value systems* characterized by radical changes and inherent uncertainty. Finally, midway in between the two extremes, there are *established value systems* which attempt at local and incremental changes in existing value systems.

The focus in the current study is on strategic networks. Jarillo (1988, 32) describes *strategic networks* as “long-term, purposeful arrangements among distinct but related for-profit organizations that allow those firms in them to gain or sustain competitive advantage vis-à-vis their competitors outside the network.” Elsewhere, Gulati et al. (2000b) define strategic networks in terms of enduring interorganizational ties that are of strategic significance for the firms entering them, including e.g. strategic alliances, joint ventures, long-term buyer-supplier partnerships, and other similar ties. According to Klint and Sjöberg (2003, 409-410), strategic networks are “deliberately created, organized cooperation between two or more companies, with the purpose to achieve a common objective”. Further, a “strategic network can be described as the total pattern of relationship within a group of actors, striving to reach a common goal” and the network “is planned, has borders and the actors are known to each other” (Klint and Sjöberg 2003, 409-410).

Although the above definitions of a strategic network are helpful, as such they lack clarity and differ in parts from my own definition of a strategic network. Jarillo’s definition is restricted only to for-profit organizations. In my opinion, however, a strategic network can

also include non-profit organizations. The definition by Gulati et al., in turn, offers a very abstract view of a strategic network, allowing a wide range of interpretations and leaving too much to be redefined. Klint and Sjöberg suggest some elaborations to the concept, but their definition still remains rather general.

In their discussion of strategic networks, Möller et al. (2005) and Möller and Svahn (2003) make a useful distinction between the terms "network" and "net". The former refers to a macro network while the latter refers to an intentional network of a restricted groups of actors. However, I will continue to use the term "strategic network" instead of the alternative "strategic net", because it seems to be more widely in use among network scholars (see e.g. Jarillo 1988; Gulati et al. 2000a; Ritter et al. 2004; and Klint and Sjöberg 2003).

On these grounds I define a strategic business network as *intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic business goals*. This definition is built largely on the ideas presented by Jarillo (Jarillo 1988), Gulati et al. (2000b), Möller et al. (2005), Möller and Svahn (2003), and Klint and Sjöberg (2003). Within this definition, the present study considers the following as the key characteristics of a strategic business network:

- A strategic network is defined by *intentionality*: strategic networks are intentionally created, developed, maintained, and managed (Möller and Svahn 2003).
- The existence of a strategic network is motivated by the pursuit of *strategic business goals* and benefits, which means that a strategic network exists in order for the network members to obtain a better competitive stance over competitors outside the network. The goals of the network may be more or less explicit.
- A strategic network exists to pursue *shared* business goals that are mutually beneficial – although individual network members may also pursue non-shared goals through network cooperation as long as these do not contradict the network's shared goals.

- A strategic network strives to be defined by fairly *clear boundaries*, meaning that its members should try to gain a mutual understanding of the organizations that belong and do not belong to the network (Klint and Sjöberg 2003). Without clear boundaries, it will be hard for network members to agree on shared goals and, in general, network management will grow difficult.
- A strategic network often has at least one key player (i.e. “a hub”) that often takes the initiative in developing and managing the network, as well as other players that have a less visible or less powerful role in the network. Sometimes there may be several, more or less equal key players. Still, this does not necessarily mean that these “hubs” have total control of the network in terms of development and management.
- A strategic network usually includes several for-profit organizations. However, such a network may also include one or several non-profit organizations, such as universities, research institutions, or non-profit associations.

This concludes the discussion on the concept of strategic networks. In the next section this concept is compared with another closely related concept: strategic collective-action networks.

2.1.3 Definition of networks of collective action

PIF, the empirical case of this study, is a distinct type of a network: namely, a strategic network of collective action. The purpose of this section is to define the concept and compare it with strategic networks (defined in the previous section). I will keep the discussion brief, because the goal in this study is not to study how a network of collective action differs from other types of networks or how it functions compared with other networks. The purpose of this discussion is merely to give a background for understanding the forthcoming empirical analysis.

Strategic networks can be classified as *vertical* or *horizontal* depending on whether they consist of cooperation between actors who specialize in different, sequential activities along

a demand-supply chain (vertical) or cooperation between actors who specialize in nearly similar, coinciding activities along a demand-supply chain (horizontal). Vertical networks comprise a chain of actors ranging from raw material suppliers and manufacturers to distributors and value-added resellers, and even to end customers. Horizontal networks, in turn, involve actors who cooperate on a certain, specific activity such as purchasing, research and development, marketing, or distribution. (e.g. Möller et al. 2005)

Araujo and Brito (1998) and Brito (2001) propose a third dimension of network cooperation: the institutional level. Araujo and Brito define such networks as *issue-based* or *institutional networks*. Because their theoretical background lies in the theory of collective action (Araujo and Brito 1998; Brito 2001), I refer to them simply as *networks of collective action*.

The core definitional content of the term “collective action” is a common or shared interest (as opposed to an individual interest) among a group of people (Oliver 1993). The definition further contains the notion that “rational, self-interested individuals will not act to achieve their common or group interests” (Olson 1971, 2) because their individual interests will often overshadow the interests of the group. As individual and shared interests compete, it depends on the costs and benefits both at the individual and the collective level whether an initiative of collective action holds together or falls apart (e.g. Oliver 1993). The problem of “free riders” (i.e. individuals who may benefit from collective action regardless of whether they participate or not) and the problem of “imperceptible effect” (i.e. as the group becomes larger, it becomes increasingly difficult for each member to determine the returns to his or her contribution) (e.g. Oliver 1993) are the key challenges to collective action. Since the purpose of the current study is not to investigate the phenomenon of collective action *per se*, I will not go into further details of collective action theory. Useful reviews of theories and research on collective action are available by Udéhn (1993), Oliver (1993), and Heckathorn (1996).

Although the theory of collective action originally considered groups of individuals, it has also been used successfully in the context of industrial networks (e.g. Araujo and Brito 1998; Brito 2001; Harrison and Easton 2002). In this context, a network of collective action can be defined as a net of relationships that seeks to cope with a collectively perceived and shared issue by reinforcing its members’ joint power to influence or change their collective

environment – i.e. the overall network in which the collective-action network is embedded (Brito 2001; Araujo and Brito 1998). Araujo and Brito (1998) point out that a network of collective action either may or may not adopt formalized structures. A good example of a formalized network of collective action is a trade association.

The case network of this study is a formalized (i.e. an intentionally created and developed) network of collective action. In line with my earlier definition of strategic networks, I define a formalized collective-action network as a **strategic network of collective action**, which, in turn, refers to an *intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic changes in their environment*.

The primary difference between a “strategic network” and a “strategic network of collective action” relates to their goals. A strategic network of collective action aims to change its environment (i.e. to change the rules of the game) whereas a strategic network aims to achieve a competitive advantage over its competing networks within its existing environment (i.e. to win according to the current rules of the game).

In view of the above distinction between the definitions of vertical/horizontal strategic networks and strategic collective-action networks, the question arises whether the latter type of network genuinely represents a third “dimension” of network cooperation, or whether this is just one way of describing another distinct type of network: one of collective action. In fact, I would tend to argue that a collective-action network can often be characterized in terms of the vertical and horizontal dimensions – in other words, such a network may include actors that are vertically and/or horizontally aligned with each other.

For instance, I suggest that the Symbian coalition (www.symbian.com) is a good example of a network that can be called a strategic network of collective action which combines the vertical and horizontal dimensions. Symbian is a coalition of ICT companies with the aim to change the competitive business environment of the mobile phone industry by creating a standard for mobile phone operating systems. Some of the network members are competitors and some have a buyer/supplier relations between them. I therefore regard Symbian as a

strategic network of collective action that includes both vertically and horizontally aligned companies.

PIF, the case network of the current study, can be qualified as a horizontally aligned network of collective action, because the majority of its members are more or less competitors to each other, although a few PIF members also have a buyer/supplier relationship.

Horizontally aligned networks of collective action, such as PIF, can be characterized also as “coopetitive” networks, which involve aspects of both cooperation and competition (Bengtsson and Kock 1999; 2000). A *coopetitive* network is one in which the network members cooperate in some types of activities (e.g. lobbying for changes in legislation), but compete in others (e.g. marketing, manufacturing, and distribution). The cooperative and competitive modes of network behavior are based on fundamentally different and contradictory logics of interaction, which makes the task of managing a “coopetitive” network very complex. Consequently, to understand the cooperative side of such a network we must not be oblivious to its competitive side. (Bengtsson and Kock 2000)

Bengtsson and Kock (2000) argue that it is not possible to simultaneously compete and cooperate in one and the same activity. Cooperative and competitive modes of behavior are not divided between counterparts, but between activities. Moreover, network members are more likely to compete in activities that are close to the customer, while they will be more likely to cooperate in activities that are far from the customer. The opposite is also possible, however, if network members cooperate in specified markets or product areas, but compete in others. In any case, a prerequisite for the success of a coopetitive network is that its members know how to separate its cooperative and competitive functions in one way or another. Facilitation of cooperation between competitors may, nevertheless, require an intermediate actor to coordinate and define how and in what areas the network members can compete or cooperate with each other. When network activities are governed by an intermediary, individuals of the member firms can be involved both in cooperative and in competitive action. (Bengtsson and Kock 2000)

The vertical, horizontal, and collective-action dimensions of networks are all theoretical constructs. I already noted that it is often hard to make distinctions between the three,

especially between horizontal and collective-action networks. If we look at their theoretical definitions, a horizontal strategic network differs from a horizontal strategic collective-action network in that the former aims at improving its competitiveness against its competitors, whereas the latter aims at changing the competitive environment of the whole network. At the practical level, the distinction between these two aims may not be easy to see. Hence, it is often difficult to empirically identify a certain cooperative coalition as either vertical, horizontal and/or one based on collective action.

Nevertheless, the theoretical distinctions between these three dimensions are relevant because they draw attention to diverse aspects of network cooperation, and thereby help to frame the empirical analysis and theory generation. While the vertical dimension is useful for identifying sequential value-creating activities and the horizontal dimension for analyzing competitive value-creating activities of a network, the collective-action dimension can be used to understand the logic of cooperative activities that aim to change the competitive environment. Hence, among the three distinctions, the horizontal and collective-action dimensions are best suited for analyzing and understanding the empirical case of the current study.

I therefore frame the forthcoming empirical analysis and theory generation in practice by drawing attention to two particular issues: (1) the cooperative aspects of network cooperation (i.e. how well the network achieves its goals from the perspectives of cooperation and competition), and (2) the collective-action aspects of network cooperation (i.e. how successfully the network cooperates to change its competitive environment).

2.1.4 Definition of network management and network cooperation

The focus of business network research has increasingly been shifting from trying to understand networks to trying to understand their management (Ritter et al. 2004). As far as the management or manageability of business networks is concerned, the key question is: *To what extent can a firm manage its network(s)?*

There appear to be two main schools of thought regarding this question (Harland and Knight 2001; Ritter et al. 2004). One school of writers, most notably Jarillo (1988) and Parolini (1999), argues that networks can have a “hub” or “focal” firm that is able to manage the network. Other scholars, most notably the advocates of the industrial networks approach, or the Industrial Marketing and Purchasing (IMP) Group (e.g. Turnbull et al. 1996; Håkansson and Ford 2002), argue that networks cannot be managed, because they are complex, adaptive systems in which all member firms are simultaneously and continuously involved in their management; individual firms can only try to “cope” within the network.

These two polar viewpoints to network management can be attributed to the fairly sharp difference between intentional or deliberate networking and unintentional or emergent networking (Möller and Svahn 2003; Ritter et al. 2004; see also Svahn 2004, 143-147). Their idea of networking and their background assumptions are different and partly incompatible. Although dissimilar, both are valid viewpoints in themselves. Therefore, our answer to the question about the extent to which a firm can manage its network(s) depends on what perspectives and background assumptions we are willing to accept regarding networking and managing – in other words, what our definitions of “networks” and “managing” are (Harland and Knight 2001). Naturally the answer also depends on the goals, tasks, activities, and other characteristics of the network (Möller et al. 2005).

My focus is on strategic networks, defined as intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic goals. Accordingly, cooperation is intentional and all network members are by definition involved intentionally in developing and managing that cooperation, some more actively or intensively than others. Hence, I refer to **network management** as *the means by which network members influence each other and the network as a whole in order to improve network cooperation*. This is admittedly a highly abstract definition, but it nevertheless serves my purpose to approach network management from a very pragmatic angle. In my opinion, network management can be seen as anything that network members do to influence each other and the network as a whole – whether consciously or unconsciously.

A few key points can be made to elaborate on the above definition. First, although I maintain that strategic networks can be managed by their member firms, it is fairly obvious that no single “hub” member can manage a network entirely. Rather, as suggested by Harland and Knight (2001) and Möller et al. (2005), I prefer to take a pragmatic perspective on network management and contend that the extent to which a firm can manage its network(s) lies somewhere between full control and no control at all. Then there exists “some degree of mutual interdependence [within the network] such that each party has some ability to influence the other” (Ritter et al. 2004, 177). The role of an individual member firm is to operate “as one of many having an influence on the structure and functioning of the network” (Ritter et al. 2004, 178). If we take a supply network, for instance, its member firms can assume the role of a network structuring agent, coordinator, advisor, information broker, relationship broker, and/or innovation sponsor (Harland and Knight 2001). Moreover, I agree with Tikkanen and Parvinen (2006), who argue that a networking society involves planned as well as spontaneous orders, and that these two aspects of networking are intertwined. Relationships and networks are shaped through deliberate attempts to manage them but also through unplanned, emergent trajectories.

Second, although I maintain that any or all network members can manage the network to a certain extent, I also believe that any single firm has only limited control over its network(s) (see e.g. Wilkinson and Young 2002; Håkansson and Ford 2002). Håkansson and Ford (2002) identify three paradoxes that increase the difficulty of network management. The *first paradox* relates to the opportunities and limitations of the relationship: a strong network creates opportunities for network participants, but it also increases inertia and restricts the freedom of the players. One of the managerial challenges here is that changes within and by member firms are bound to the structure of the network. The *second paradox* refers to the contradiction between influencing and being influenced by the network: a member firm cannot unilaterally manage the network since all other members are trying to do the same. The managerial challenge here is not only to influence other network participants, but also to listen to and reflect on how the others are trying to exert their influence. The *third paradox* concerns the contradiction between being in and out of control in a network: the more a firm tries to control the network, the more hierarchical and the less effective and innovative it becomes. The challenge is to look at the network from a broader perspective than just from

the standpoint of a single firm. Freytag and Ritter (2005) have identified a fourth paradox which they call a *dynamic paradox* of network management. It refers to the coexistence of stability and change in networks, requiring networks managers to find ways to cope with this coexistence instead of simply trying to increase or reduce the level of either stability or change.

Third, there are multiple ways in which network members can manage their network. Grandori and Soda (1995) identify a number of organizational coordination mechanisms that can be employed in managing interorganizational relationships and networks: (1) communication, decision, and negotiation mechanisms, (2) social coordination and control, (3) integration and linking roles and units, (4) common staff, (5) hierarchy and authority relations, (6) planning and control systems, (7) incentive systems, (8) selection systems, (9) information systems, and (10) public support and infrastructure. Interorganizational researchers often include trust and commitment to the list of interorganizational coordination mechanisms (see e.g. Dwyer et al. 1987; Ring and Van De Ven 1994; Morgan and Hunt 1994; Hunt and Morgan 1994; Wilson 1995; Achrol 1997). Grandori and Soda (1995), however, see trust or commitment as outcomes of coordination or characteristics of a relationship rather than coordination mechanisms *per se*, and so exclude them from their list.

My focus in the current study is on organizational values as a means of network management. Using the above categorization, organizational values could be categorized under the “social coordination and control” category. However, because organizational values are also linked to many other of the categories listed by Grandori and Soda (1995), such as communication, decision and negotiation mechanisms, incentive systems, and selection systems, they are not easily placed into any of them. Fortunately, the purpose of this study is not to find a single “correct” category for organizational values as a coordination mechanism.

Network management as defined in the current study is closely related to the terms *network cooperation* and *successfulness of network cooperation*, which are also key concepts vis-à-vis the research questions of this study. Hence, these terms need to be defined here also.

I define **network cooperation** in this study as *voluntary and reciprocal acts by network members towards their jointly agreed network goals* (adapted from Williams 2002). **Successfulness of network cooperation**, in turn, is defined as *the extent to which voluntary and reciprocal acts by network members contribute to the network achieving its jointly agreed network goals*.

These definitions require some clarification. The key terms in the definition of network cooperation are *voluntariness*, *reciprocity* and *acting towards jointly agreed network goals*. Consequently, I consider network cooperation as inherently voluntary as opposed to a forced or involuntary activity. A network member can naturally sometimes feel it has no other option but to cooperate with other members if it fears, for example, that it might otherwise lose its competitiveness or go bankrupt. However, if network membership is based only on forced or involuntary participation, I argue that such activity is not truly cooperative. In reality, however, it is often a matter of the degree to which a network member participates in a network voluntarily or involuntarily. Member firms are often dependent on each other because of mutual adaptations (e.g. Håkansson and Ford 2002), so that they may be partly involuntary participants in the short term. I would to argue, nevertheless, that network cooperation *in the long term* is bound to be a voluntary activity. Such cooperation is also based on *reciprocal* activities by network members. At least in the long term, member firms will take part in the network because they expect that a cooperative activity on their behalf will always be rewarded by a cooperative action by other members. Network cooperation, thus, is characterized by both giving and receiving. Finally, the ultimate goal of network cooperation is to achieve some *jointly agreed network goals* (although network members may pursue also non-shared goals by participating in the network).

The *successfulness of network cooperation* refers to the extent to which voluntary and reciprocal acts by network members contribute to the network achieving its jointly agreed network goals. It is noteworthy in this definition that the *successfulness of network cooperation* cannot be evaluated simply in terms of whether the network reaches its jointly agreed goals or not. Instead, what is important is that *successfulness* should be evaluated in terms of the degree to which the cooperative activities of the network members contribute to the network reaching its goals.

Sometimes a network may reach its goals simply due to an event that is beyond its own control (e.g., a US-based oil producers' association might reach its goal of higher oil prices only because a war has erupted in a key oil producing country in the Middle East). From the perspective of network management, this would hardly count as a case of successful network cooperation. However, a contrasting case would be one in which network members' cooperative activities contribute to the achievement of network goals, but something outside the network's control prevents it from actually reaching them (e.g., a US-based oil producers' association might fail to reach its goal of higher oil prices because of OPEC's effective price control, even though the US association may have done many things right in terms of coming closer to reaching its goal). From the viewpoint of network management, this could count as a successful case of network cooperation despite the failure to reach the ultimate goals. Finally, a clear case of successful network cooperation would be one in which the network achieves its goals as a result of the contribution of its members.

In practice, the successfulness of network cooperation in the current study is determined, firstly, by asking interviewees directly whether they think cooperation has been successful and secondly, by interpreting the interview data in terms of the definitions of successful network cooperation given above.

This concludes the theoretical discussion on strategic networks and their management. Next I will turn to organizational values and values-driven management.

2.2 Organizational values

2.2.1 Background: Organizational cultures

Organizational values are a core element of organizational cultures (O'Reilly and Chatman 1996; Schein 1992; Deshpandé and Webster 1989; Wiener 1988; Posner et al. 1985). A culture can be defined as “a system of shared values (that define what is important) and norms that define appropriate attitudes and behaviors for organizational members (how to feel and behave)” (O'Reilly and Chatman 1996, 160).¹ It follows that research on organizational values and research on organizational cultures are closely interrelated as well – or, more particularly, the research on organizational cultures provides an essential *background* for research on organizational values. Consequently, I will start the discussion on organizational values with a few words on organizational cultures.

Organizational cultures can be approached from at least two perspectives: as something the organization *has* or as something the organization *is* (Smircich 1983; see also Deshpandé and Webster 1989). The former examines organizational culture as an organizational “variable”, while the latter views it as a “metaphor” for the organization. The current study adopts the former viewpoint. Hence, I treat organizational culture as an element of the organization which both influences and is influenced by various intra-organizational elements (e.g. trust, commitment, and stability and instability) and extra-organizational elements (e.g. professional cultures, education systems, and national culture). This viewpoint is relevant to the current study especially because values-driven management research and

¹ Norms and values are closely related concepts; the distinction between them is one of emphasis: “Norms refer to the expected behaviors sanctioned by the system and thus have a specific ‘ought’ or ‘must’ quality, while values provide rationales for these normative requirements” (O'Reilly and Chatman 1996, 165).

practice usually regard organizational culture and values as variables rather than as metaphors – whether implicitly or explicitly (Martin 2002).

Adopting the culture-as-a-variable viewpoint, my assumption is that organizational managers can influence the culture of the organization; in other words, I maintain that it is possible to manage organizational cultures. However, I am cautious about the *extent* to which managers can do this, as many writers have questioned the manageability of organizational cultures (Smircich 1983; Wilkins and Ouchi 1983; Deshpandé and Webster 1989).

Marketing management researchers have also increasingly begun to utilize the concept of organizational culture. For instance, Deshpandé and Webster (1989, 13) urge marketing scholars to pay more attention to cultural research and to develop theoretical structures by which cultural aspects, such as organizational values, can be related to various marketing phenomena, because they claim the “importance of understanding organizational culture in a marketing management context is undeniable.”

Turner and Spencer (1997, 118), among other writers, suggest that the concept of marketing can actually be defined *as* an organizational culture, i.e. “a shared set of beliefs and values centered around the importance of the customer in the organization’s strategy and operations.” Marketing management can, thus, be conceived as cultural management, suggesting that the marketing culture of an organization can be managed by various means of managing organizational values and beliefs (Webster 1992; Dunn et al. 1994; Turner and Spencer 1997; Dobni et al. 2000; Wilson 2001). For instance, Wasmer and Bruner (1991) discuss the concept of internal marketing as one way of managing an organization’s marketing culture.

The importance of organizational cultures has also been noted by relationship-oriented marketing scholars. For example, Day (2000, 27) argues that companies should manage their organizational values in order to establish a relationship-oriented marketing “mindset” that is much needed in the contemporary relationship-driven business environment.

2.2.2 Definition of organizational values and value congruence

Although management scholars have long been interested in human values, a scholarly interest in them began to escalate only in 1968 when Milton Rokeach published his famous book *Beliefs, Attitudes and Values* (Rokeach 1968). Since then organizational values have attracted a good deal of academic interest. Reviews of studies on organizational values have been provided by Connor and Becker (1975; 1994), Sagie et al. (1996), and Meglino and Ravlin (1998).

Moreover, scholars have offered a number of seemingly different definitions of values (see e.g. Connor and Becker 1975; 1994; Sagie et al. 1996; Meglino and Ravlin 1998). Nonetheless, these definitions have much in common. The general view is that values define how a person, or an organizational actor, should behave in a given situation. For instance, Meglino and Ravlin (1998, 354) define a value as a “person’s internalized belief about how he or she should or ought to behave”, and add the qualifier “at work” to the definition when it is taken into a working life context.

Organizational values are defined in the current study as *beliefs held by organizational actors (individuals or groups of individuals) about desirable end states or modes of behavior, which serve as the basis for making choices*. This definition is modified from Connor and Becker (1994; see also 1975), with the following notes:

- There are two kinds of values: terminal values (i.e. values about desirable end states, such as happiness, wisdom, health, or wealth) and instrumental values (i.e. values about desirable modes of behavior, such as honesty, achievement, or effectiveness) (Rokeach 1968). Although organizational behavior research in general has focused more on instrumental than on terminal values (Meglino and Ravlin 1998), I will consider both in this study.
- While values *serve as the basis* for choices, they do not *dictate* choices. Behavior can also be inconsistent with values (Rokeach 1968, 167). Different environmental and situational factors and constraints may influence (e.g. restrain, weaken, or amplify)

the relationship between values and behavior (Meglino and Ravlin 1998; Sagie et al. 1996; England 1993).

- The definition is not limited solely to either espoused values (i.e. “ideal” or “stated” values) or to actual values (i.e. “values-in-use” or “real” values); rather, it covers both kinds of values.
- If organizational values are not actively needed, they may exist latently – in other words, they may be dormant or reside in the “unconscious mind” of the organization. A value’s latent phase can continue for a fairly long period of time until it “surfaces” again when a need for it arises – e.g. in a conflict situation which questions the organization’s routines, learned behavior, or taken-for-granted assumptions. (See e.g. Puohiniemi 2003, 11-12)
- Although organizational values are fairly stable, the importance of a certain value may change over time and across situations (Meglino and Ravlin 1998).

It has been argued that organizations do not really *have* actual values, because only human beings are capable of forming values (Pruzan 2001). However, a more widely accepted perspective is that values are not limited to individuals, but that teams, companies, interorganizational systems, even entire societies can have clearly distinguishable, shared values (e.g. Sagie and Koslowsky 1998). In other words, it is “meaningful and efficacious to ascribe the competency for conscious and intentional behavior, including formulating and expressing values and visions, to collectivities of individuals, to organizations” (Pruzan 2001, 272). A point worth making here is that shared organizational values are not simply an *aggregation* of the individual values of organizational members. Pruzan (2001, 276) notes that when the members of an organization gather to decide on matters of importance to the organization, “a new, implicit – and shared – value can develop amongst the participants”.

Whereas organizations may have shared values, it is not reasonable to expect that everyone in the organization has the same values. There will always exist a multiplicity of values in organizations and also multiple variations in their acceptance (Martin and Meyerson 1988; Meyerson and Martin 1987; Hinings et al. 1996). Further, despite the presence of shared

organizational values, any individual member of the organization can carry a blend of his or her own personal values and these shared organizational values (Badovick and Beatty 1987).

Brown (1976) identifies four basic categories or sources of values in the organizational context: societal values, organizations' espoused values, employees' values, and managers' values. These are interdependent and can conflict with each other. Societal values influence the espoused values of an organization through governmental and societal institutions, consumer advocates, and so on. Individual employees' values are also affected by the values of society through family, school, church, and peers. The organization, for its part, tries to influence managers' values by introducing various reward and punishment mechanisms. And finally, managers attempt to influence the values of the employees to make them congruent with the organization's espoused values. The overall conclusion is that there are numerous interdependent sources and carriers of values within all organizations.

Organizational **value congruence** depicts how integrated or fragmented the values within the organization are. I define value congruence as *the degree to which values are shared among persons or organizations*. This definition is modified from Liedtka (1989; 1991) and Badovick and Beatty (1987). It is possible to measure value congruence between a group of individuals, an individual and an organization, a group of organizations, and so forth. Value congruence can be conceptualized in research in at least two distinct ways: (1) as *perceived* value congruence, or the similarity of espoused values subjectively reported by research informants, and (2) as *latent* congruence, or value similarity as objectively determined by the researcher by comparing the actual values of research informants (Enz 1988). Pant and Lachman (1998, 197) refer to highly congruent values as "core values" and less congruent values as "peripheral values". For further discussion on value congruence and its managerial and research implications, see e.g. Liedtka (1989; 1991) and Badovick and Beatty (1987).

The term *value system* can be used to describe the structure of personal or organizational values. Rokeach (1968, 161) defines a value system as the "rank-ordering of values along a continuum of importance", where values are "organized into hierarchical structures and substructures". The definition suggests that individuals or organizations may be confronted with a situation where two or more of their values are in conflict with one another; the resolution of the conflict requires that they place one or several of their values ahead of

others based on the particular importance of those values (Rokeach 1968, 161). However, values are not organized only hierarchically. Rather, they are interconnected in a much more complex manner. Values exhibit different, continuously changing combinations of relations, order, compatibility, and conflict with each other. Schwartz (1992) and Kabanoff et al. (1995) offer a definition that takes this complexity better into account: a value system is *the overall pattern of relations among a set of values*. Wiener (1988) writes about a “weak” value system in case of incongruent organizational values and a “strong” value system in case of highly congruent values.

2.2.3 Antecedents and outcomes of organizational values

In the mid 1970s, Connor and Becker (1975) suggested that there was a major knowledge gap in organizational research concerning organizational values and their relationships to various properties, processes, activities, and outcomes of the organization. Since then, a vast amount of research has been conducted to fill in this gap.

Studies have shown that organizational values are an inseparable part of both strategic management (Lorsch 1986; Freeman et al. 1988; Pant and Lachman 1998) and organizational structures (Hinings et al. 1996; Ranson et al. 1980; Bate et al. 2000). Organizational values are also related to competitive advantage (Barney 1986; Fiol 2001) and performance of the organization (Sorensen 2002; Marcoulides and Heck 1993; Posner et al. 1985). Shared values further seem to be a precondition for successful organizational collaboration and commitment (Tjosvold and Tsao 1989). They also appear to influence a firm’s marketing strategy and its implementation and effectiveness (Badovick and Beatty 1987; Dunn et al. 1994). Even though organizational values relate to various organizational elements, it is worth remembering that an organization can also hold values that are *not* critical for its survival or for higher productivity (Meglino and Ravlin 1998).

Meglino and Ravlin (1998), Sagie et al. (1996), and Connor and Becker (1994) have proposed fairly similar models of organizational values and their antecedents, outcomes, and correlates. Based on their models, I have outlined a general model of organizational values and their primary antecedents and outcomes (see Figure 2).

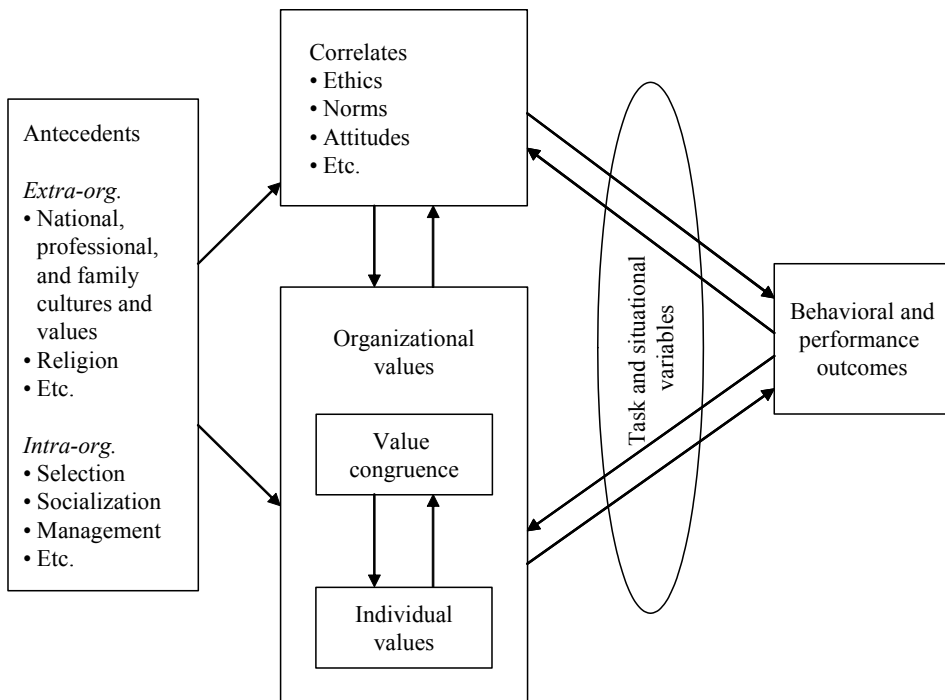


Figure 2. Model of organizational values and their main antecedents and outcomes.

Source: Modified from Meglino and Ravlin (1998), Sagie, Elizur and Koslowsky (1996), and Connor and Becker (1994).

Organizational values generally derive from different kinds of intra- and extra-organizational factors. Intra-organizational antecedents may include processes like employee selection and socialization as well as various other elements related to organizational management. Extra-organizational antecedents cover such socio-cultural background elements as national, professional, and family cultures and values, and religion. Different kinds of correlating elements, such as organizational ethics, norms, and attitudes, also influence and are influenced by organizational values. (Meglino and Ravlin 1998; Sagie et al. 1996; Connor and Becker 1994)

Organizational values and their correlates are linked to behavioral and performance outcomes at the individual and the group level in at least two ways. Firstly, values can influence outcomes directly and, secondly, to the extent that they are congruent within the organization. The former (values → outcomes) is the direct result of employees applying values in action, while the latter (value congruence → outcomes) can affect outcomes by clarifying communications, removing ambiguity and conflict, and so on. The link between organizational values and their outcomes is bidirectional: values both influence and are themselves influenced by behavioral and performance outcomes. Finally, the relationship between values and their outcomes may be moderated by different kinds of task-related and situational elements, such as peer pressure, lack of resources, or time restrictions, which means that similar values will not always lead to similar outcomes. (Meglino and Ravlin 1998; Sagie et al. 1996; Connor and Becker 1994)

The general model presented in Figure 2 includes many elements that fall outside the scope of the current study. Consequently, I will focus only on certain aspects of the model: (1) as for antecedents, on management aspects (later defined as “values-driven management” in Section 2.3.3); (2) as for organizational values and value congruence, on values and value congruence at the interorganizational level; (3) as for outcomes, on the successfulness of network cooperation; and finally, (4) as for task-related and situational elements of the model, on the task-related and situational characteristics of the case network of the current study. Other aspects of the model are not considered in the remainder of this study.

2.3 Values-driven management

2.3.1 Background: The paradigm of strong cultures

The idea of values-driven management – managing organizational values for improved organizational performance – was popularized in the early 1980s by advocates of the so-called *paradigm of strong cultures* (e.g. Peters and Waterman 1982; Deal and Kennedy 1982; Kilmann et al. 1986). However, the idea in itself was not new at the time (see e.g. Cohn 1969). The general argument in values-driven management was that firms with a strong organizational culture – i.e. organizations with highly congruent values – will achieve better results than their competitors. Since the early 1980s this view has gained momentum among various academic and less academic writers (e.g. Jaeger 1983; Wiener 1988; Collins and Porras 1991; McDonald and Gandz 1992; Ledford et al. 1995; O'Reilly and Chatman 1996; Blanchard and O'Connor 1997; Martinsuo 1999; Lencioni 2002; Puohiniemi 2003).

Kilmann et al. (1986) suggest that the impact of organizational culture on organizational outcomes (e.g. behavioral or performance outcomes) depends on three interrelated aspects: the direction, pervasiveness, and strength of the organization's culture. (1) The *direction of impact* deals with the course that culture causes the organization to follow. Does it encourage or discourage behavior that helps to achieve the organizational mission and strategic goals? (2) The *pervasiveness of culture* deals with the degree to which the culture is shared among the organizational members. Does the organization have a unique, shared culture, several subcultures, or perhaps no shared culture(s) at all? (3) Finally, the *strength of culture* deals with the level of pressure or intensity that it exerts on the organizational members, regardless of its direction. Does the culture make organizational members feel compelled to follow its dictates, or do they feel that it only mildly suggests certain behavior?

These three aspects of impact, according to Kilmann et al. (1986), affect the performance of the organization. A positive impact is achieved when the culture points in the right direction,

is widely shared, and exerts strong pressure on organizational members. Or, alternatively, a negative impact follows when the culture points in a wrong direction, is widely shared, and places strong pressure on members. A weak and non-congruent culture will have no impact on the organization, in which case its direction is equally insignificant.

Whether or not a strong and pervasive culture benefits the organization also depends on environmental or extra-organizational factors. For example, Sorensen (2002) shows that a strong culture helps companies to achieve a more reliable (i.e. less variable) performance level only if the environment is stable; this benefit seems to disappear in a volatile environment. Hence, organizations with strong cultures “excel at exploiting established competencies but have difficulty exploring and discovering new competencies that better suit changing environmental conditions” (Sorensen 2002, 88).

2.3.2 Towards a wider perspective on managing cultures

As established in the previous section, the idea of culture management originates from the paradigm of strong cultures. In my view, this paradigm gives a fairly narrow and restricted perspective on it. Martin and Meyerson, in fact, propose three different analytical approaches to studying and managing organizational cultures, which they label as the *integration*, *fragmentation*, and *differentiation* perspectives (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002; see also Martin and Frost 1999). The integration perspective corresponds to the paradigm of strong cultures, but the other two offer a wider viewpoint. I will briefly discuss these three perspectives based mostly on the ideas of Martin and Meyerson.

Researchers who view organizational culture from the *integration perspective* define it as something that is shared and homogeneous within an organization. Culture is seen as the integrating mechanism, the glue that holds the organization together, implying a harmonious, “strong” organizational culture. According to Martin and Meyerson, the following three characteristics are central to the integration perspective: (1) consistency across cultural manifestations, (2) consensus among the cultural members, and (3) usually a focus on leaders as the creators of organizational culture. Therefore, researchers holding the

integration perspective (1) focus on cultural manifestations that are consistent with each other within an organization, (2) implicitly or explicitly assume that organizational members representing various hierarchical levels, functions and divisions share similar cultural patterns, and (3) often portray leaders as the primary source of cultural content and change. Finally, the integration view is silent about cultural ambiguity – i.e. cultural uncertainty, contradiction, and confusion. (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002)

Researchers who adopt the integration perspective may focus on superficial cultural manifestations, such as espoused values, or deeper-level manifestations, such as taken-for-granted assumptions. This perspective assumes that cultural change can occur only through a revolutionary process. The old organizational culture must first be “unlearned” before a new culture is embraced, and a short period of cultural ambiguity may prevail (only) between unlearning the old and learning the new. According to the integration perspective, the change process can and should be intentionally engineered or at least controlled by top management. (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002)

Integration studies have so far overshadowed the other two viewpoints to culture in the number of studies carried out (Martin and Frost 1999). In fact, many of the first influential publications on corporate or organizational culture adopted the integration perspective, usually implicitly. Perhaps two of the most widely cited early writers in this context are Peters and Waterman (1982) and Deal and Kennedy (1982). Because integration studies often argue that effective cultural leaders can create strong cultures built on strong values, the integration perspective has also been labeled as “value engineering” (Martin and Frost 1999).

In contrast to the integration perspective, the *differentiation perspective* is characterized by the acknowledgement of diversity within an organizational culture. Its central notion is that organizational cultures are “composed of various interlocking, nested, sometimes conflicting subcultures” (Martin and Siehl 1983, 53). Advocates of this perspective pay attention to inconsistencies, lack of consensus, and non-leader-centered sources of cultural content and change. They also acknowledge the importance of various subunits, such as groups and individuals from within and outside the boundaries of an organization. Organizations are not

seen as homogeneous entities with a single dominant culture, but as collections of subgroups with different values and cultural manifestations. A single organization may contain various dominant and non-dominant subcultures, each of which represents a group of organizational members with a homogeneous culture among themselves. Different subcultures may have positive (enhancing), negative (conflicting), or orthogonal (indifferent) relationships to each other. Hence, the differentiation perspective acknowledges some degree of cultural ambiguity in an organization between, but not within, its subcultures. (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002)

According to the differentiation perspective, cultural content and change spring from multiple sources: e.g. from national, occupational, and ethnic cultures. Other sources include occupational influences, demographics, technology and, to some extent, organizational leaders and top management. Whereas the integration perspective takes the organization as the analysis level, the differentiation perspective allows the use of multiple levels of analysis, since it allows inconsistencies between different organizational levels. Top management and lower-level employees, for instance, can hold contradicting cultural values. The differentiation perspective acknowledges an incremental process of cultural change, since different subcultures are loosely coupled to each other and can change at different paces. Consequently, it sees the control of cultural change as more problematic than the integration perspective. (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002; see also Martin and Siehl 1983)

The differentiation perspective often finds its advocates among scholars who criticize the integration perspective for its overly optimistic “value-engineering” perspective. Wilkins and Ouchi (1983), for example, point out that shared or strong cultures occur relatively infrequently at the level of the whole organization, and that many organizations are, in fact, fragmented socially or culturally. They argue that shared cultures are more likely to develop within functional or professional groups than at the level of the whole organization. Further, they contend that the efficiency of organizational culture as a governance mechanism depends on environmental factors; cultural control may work well under conditions of ambiguity and complexity, but it may be less efficient in situations where the level of complexity and uncertainty is relatively low compared to bureaucratic and market forms of governance. Cultural control may simultaneously be efficient at some level of analysis, e.g.

at a subunit level, and inefficient at the level of the whole organization. Martin and Siehl (1983) claim that a sub-culture which contradicts a dominant culture can actually be beneficial to the organization, because the contradictory subculture may prompt the organization to articulate better the boundaries between appropriate and inappropriate behavior, offer a “safe haven” for the development of innovative ideas, and also provide an opportunity to regenerate the organizational culture.

The *fragmentation perspective* differs from the integration and differentiation perspectives in its treatment of “ambiguity”. Whereas the integration perspective denies ambiguity, and the differentiation perspective allows ambiguity between, although not within, different subcultures, the fragmentation view acknowledges ambiguity as a natural state of organizational culture; it legitimates complexity and lack of clarity and even makes them the focus of attention. Hence, seen from this perspective, a culture has no shared, homogenous set of values, except for one: namely, the awareness of ambiguity itself. Ambiguity is the way things *are*, not a temporary state awaiting the emergence of a homogenous culture. Advocates of the fragmentation perspective, therefore, look for confusion, paradox, everything that is not clear. As they see it, a culture cannot be characterized either as full of harmony or full of conflict. Instead, some values and cultural manifestations will be shared, some disagreed about, and others ignored. The coexistence of consensus, dissensus, and confusion make it difficult to draw cultural boundaries within an organization. From the fragmentation perspective, an organizational culture is constantly in a state of flux and change, as individuals adapt to varying situations. Naturally, conceived like this, cultural change is virtually uncontrollable. (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002)

To sum up, the integration, differentiation and fragmentation perspectives offer three different approaches to organizational culture. According to Martin and Meyerson, they “should be thought of as a set of three lenses, each one to be used in turn, again and again, in order to defocus and refocus, capturing a full view of all three aspects of any one cultural context” (Martin and Meyerson 1988, 122). It would be a misunderstanding to conclude that a particular organization has a culture or values that can be characterized by just one of the three perspectives; on the contrary, any cultural setting at any point in time will have certain

aspects that reflect all three perspectives (Martin and Frost 1999; Meyerson and Martin 1987).

The starting point in the current study is the paradigm of strong cultures, or the integration perspective. However, I will also use the fragmentation and differentiation perspectives to critically assess and widen the perspective given by the paradigm of strong cultures. The other two perspectives make it possible to rethink and expand the definition of values-driven management to be presented in the next section. The need to critically assess and ultimately to broaden the concept of values-driven management derives from the research questions of this study. Whereas the paradigm of strong cultures often fails to consider the potential differentiation and ambiguity inside organizations, I will keep my mind open to these aspects of organizational culture as well, since they may teach us something that the paradigm of strong cultures perhaps overlooks.

Finally, I conclude this discussion with a few words of critique relating to the management of organizational cultures. Despite its potential benefits, some scholars have questioned the morals and ethics of culture management as it may threaten individual freedom (Willmott 1993; O'Reilly and Chatman 1996; Bagraim 2001). For instance, Willmott (1993, 529) writes that the advocates of cultural control often try to create a “system of beliefs and rewards [...] that invites employees to suspend doubt in the good sense of subjugating themselves to the authority of the core corporate values. Far from enabling an active process of comprehending the possibility and necessity of choosing between competing values [...], identification with a single set of values is demanded.” From this point of view, cultural engineering is just another form of suppressing individual employees’ values and behavior under totalitarian, monolithic cultural control, in which the top management, not the employees, have the most to gain from attempts to “strengthen” the organizational culture (Willmott 1993; Bagraim 2001).

Nevertheless, since not only the paradigm of strong cultures but also the other two perspectives on culture agree that organizations are capable of having values and values seem to have an influence on different organizational outcomes, it is reasonable to conclude that values-driven management can be beneficial to organizations as well as to networks. This is the topic of the next two sections.

2.3.3 Definition of values-driven management

Values-driven management² can be seen as a social form of organizational control complementing the more traditional control systems (Jaeger 1983; Simons 1995; O'Reilly and Chatman 1996; Pruzan 1998). The argument goes that because business environments are becoming more and more complex and uncertain, rules and regulations, performance measures, and other conventional systems of control are rendered ineffective. For example, the capability and motivation of organizational members to innovate can be hindered under traditional control mechanisms. Values-driven management is also a means to address the shift in the nature of work: the old world, where “tangible work lends itself to explicit control” is increasingly being replaced by a new world, where “intangible information work requires *implicit* control” (McDonald and Gandz 1992, 67, emphasis in original).

Academic and other authors have proposed many definitions of values-driven management. The more academically oriented writers have offered fairly similar definitions. For instance, Jaeger (1983, 93-96) writes that “cultural control” is based on the presence of shared values within the organization, and on the selection, training, socialization, and monitoring of organizational members for increased value congruence. Likewise, Wiener (1988, 542) outlines the “maintenance of organizational value systems” in terms of recruitment, selection, socialization, and rites and rituals, where “charismatic leadership” and “organizational tradition” are the sources of these values.

In a similar vein, McDonald and Gandz (1992, 71) define “managing shared values” as “(1) actions designed to recruit and select value-congruent candidates, (2) actions designed to socialize employees toward the organization’s required value set, and (3) actions designed to

² Other terms such as *managing by values* and *value-based management* have also been used by other writers. I chose to use the term *values-driven management* because I think that it best conveys the meaning that values “guide” behavior in organizations. The reason for the plural form of *value* (i.e. *values-driven* instead of *value-driven*) is that the word “value” has already a heavy connotation among network researchers relating to “value creation” and “value-creating networks” (see e.g. Möller et al. 2005).

radically alter the organization's value set in response to perceived changes in its competitive environment." The third step in their definition relates to the choice of a strategic set of values.

Humble et al. (1994, 28 and 41), in turn, emphasize two aspects in the management of "corporate values." First, corporate values are selected according to the corporate vision and these values are then implemented in terms of involving managers in the process, analyzing the situation, stating and communicating the corporate values, collecting feedback, and controlling and adapting to changing situations. Ledford et al. (1995, 11) use a slightly different vocabulary and define the process as "realizing a corporate philosophy" in four stages: (1) creating a philosophy statement, (2) communicating and implementing, (3) creating linkages between the philosophy and the governance system, and (4) devising systems for affirmation and renewal.

Finally, O'Reilly and Chatman (1996, 168, emphasis in original) refer explicitly to the paradigm of strong cultures in their definition of values-driven management. They see it as "the combination of identifying strategically relevant values and norms, as opposed to irrelevant values and norms, *and* promoting agreement, as opposed to chronic conflict among organizational members, [which] is critical to creating a strong culture that positively affects organizational performance." Other similar or nearly similar definitions of values-driven management are given by Martinsuo (1999), Driscoll and Hoffman (1999), Dolan and Garcia (2002), Lencioni (2002), Puohiniemi (2003) and Argandoña (2003), among others.

A review of some of the less academic writings on values-driven management (see e.g. Howard 1990; Collins and Porras 1991; Osborne 1991; Ginsburg and Miller 1992; Nicoll 1993; Osborne 1996; Harrington et al. 1996; Anderson 1997; Blanchard and O'Connor 1997; Giblin and Amuso 1997; Dahlgaard et al. 1998; Edgeman and Dahlgaard 1998; Maccoby 1998; Wickens 1999; Blanchard 2001) reveals that these definitions closely resemble those proposed by the more academic authors. In other words, they do not offer many major, significant new perspectives on the concept.

Common to all of the above definitions of **values-driven management** is that they instruct organizations (1) to develop a strategically important set of "core values" and (2) to

implement an action plan to achieve higher congruence of core values among actors at all organizational levels.

(1) Setting a set of core values

Companies cannot focus on too many values at one time, so they will need to choose a strategic set of core values (Reynierse et al. 2000). This set of values should optimally include mutually reinforcing rather than contradictory values. For instance, valuing quality does not go too well together with low-cost leadership. Similarly, valuing people and integrity is not too well aligned with financial control. Once the company has chosen its core values, it should continuously evaluate whether they are relevant to and aligned with its core strategies (O'Reilly and Chatman 1996).

(2) Increasing value congruence

In general, value congruence can be increased by two complementary processes: selection and socialization (Chatman 1991). *Selection* occurs when an organization chooses to recruit new employees who have similar instead of dissimilar values and who are open to adopt its organizational values. *Socialization* is the process by which an individual comes to understand and adopt the values of the organization.

Socialization processes may be endorsed, for instance, by (a) programs that consistently and continuously clarify and communicate the values within the organization, (b) programs that encourage employee participation, which increases their commitment to the values, (c) values-driven employee training and support systems, and (d) values-driven reward systems (see e.g. Posner et al. 1985; and O'Reilly and Chatman 1996). The core values of an organization can also be adopted through collective experiences of success: When one or some of these espoused values continuously produce the desired results, more organizational members will adopt or idealize the values – ultimately to the level where they become basic assumptions that are no longer questioned. Organizations can succeed in socializing new organizational values if these repeatedly lead to success stories. By the same mechanism, unsuccessful experiences can cause organizational members to reject espoused values. (Gagliardi 1986)

The above definition of values-driven management builds upon the paradigm of strong cultures – i.e. on the integration perspective. However, as already noted, this perspective is often fairly narrow, and so I offer the following specifications to broaden the definition towards views proposed by the fragmentation and differentiation perspectives.

In light of the fragmentation and differentiation perspectives, the term “values-driven management” should not imply that the goal of values management is *always* to achieve high value congruence, or a strong culture, within an organization. Rather, there are at least three degrees of values-driven management. Firstly, in the strongest sense of the term, corporate management may quite literally try to persuade employees to adopt management-driven values at a personal level, the goal being a “strong” organizational culture. Secondly, in a more moderate sense, management may try to align organizational behavior, practices, and decision-making with the espoused values, but not to persuade employees to adopt them at a personal level. In other words, a low congruence of actual values among organizational members will be tolerated. Thirdly, in a very loose sense, management can try to make organizational members aware of and understand the organization’s espoused values, while it acknowledges and accepts the existence of ambiguity and fragmentation of actual values within the organizational culture.

The latter two interpretations of values-driven management can be important, since it may prove very difficult to create a “strong” organizational culture in which all employees share the same values. Cultural ambiguity may, in fact, be beneficial to an organization, as it may foster innovation. And, to reach the desired managerial results of coherent behavior and decision-making within the organization, it may suffice to simply sensitize employees to the different espoused and actual values that guide the organization at its different levels.

In conclusion I suggest a **wider definition values-driven management** as *a means by which management can increase awareness and understanding of organizational values within an organization in order to sensitize and prepare organizational actors for the positive and negative effects that values may have on the functioning of the organization*. This definition incorporates both the “strong” and the “loose” interpretations of values-driven management.

2.3.4 Values-driven management in networks

A number of studies have suggested that shared values play a significant role in interorganizational relationships and networks. For instance, Dwyer et al. (1987, 21) argue that shared value systems support joint investments in committed relationships and help to ensure sustained interdependence. Similarly, Jarillo (1988) claims that shared values facilitate the emergence of trust in strategic networks, and Ring and Van de Ven (1994) suggest that value congruence is needed to maintain interorganizational cooperation. Macro networks can also benefit from shared values, at least in the form of decreased rivalry and improved communications (Gordon 1991; Abrahamson and Fombrun 1992; 1994; Chatman and Jehn 1994; Phillips 1994).

Elaborating on the concepts of trust and commitment, Morgan and Hunt (1994; see also Hunt and Morgan 1994) developed a more explicit model of how shared values contribute to increased trust and commitment in relationships. Their *key mediating variable* (KMV) model is a much cited effort to construct a comprehensive model of the antecedents and outcomes of trust and commitment in interorganizational relationships. One of the model's most important components are shared values, which Morgan and Hunt find to be positively connected to both relationship commitment and trust. The main weakness of the KMV model, in my opinion, is the way shared values are operationalized; Morgan and Hunt measure the degree of shared values, or value congruence, only in terms of the corporate ethical values of the relationship partners. Nevertheless, the KMV model and its suggested relationship between shared values and trust-commitment is well established among network scholars (see e.g. Wilson 1995; Young-Ybarra and Wiersema 1999; Voss et al. 2000; Sharma et al. 2001; Friman et al. 2002; Varamäki et al. 2003, 28-30).

Shared values and similar cultures appear to enhance the success of business networks. Snow et al. (1992, 18) claim that a shared "sense of community" or a shared culture among network members ensures the effectiveness of a business network. Kanter (1994) suggests that collaborating partners should have compatible values and that successful collaboration requires cultural integration. Achrol (1997), a much cited author among network scholars, also maintains that, to collaborate successfully, a network should have a shared value system or an affiliational culture that defines the roles and responsibilities of network members.

Dyer and Singh (1998) agree that compatible organizational cultures increase the possibility of relationship partners to benefit from the relationship. Similarly, Tsupari et al. (2001, 12-13) see shared values as key components in network management. And finally, according to a recent article by Wilkinson and Young (2005), the values and ideals of network members are actually what either enable, or disable, networks to compete and co-evolve together in today's turbulent business environments.

In general, the continuity of strategic alliances and networks seems to require a "cultural fit" between the partners, meaning that they "have cultural sensitivities sufficiently acute and flexible to be able to work effectively together, and to learn from each others' cultural differences" (Faulkner 2003, 137; see also Bronder and Pritzl 1992; Child and Faulkner 1998; Möller and Svahn 2004). Cultural fit or compatibility does not necessarily mean that alliance partners should have *similar* cultures, although it does require that they display cultural sensitivity and agree that there is often more than one acceptable way of doing things (Faulkner 2003; Child and Faulkner 1998, 95). On the other hand, despite the potential benefits of shared values, they may also increase the inertia of networks, influence the innovativeness and diffusion of innovations within the networks, and raise the similarity of the member organizations' strategic profiles (Abrahamson and Fombrun 1994).

For instance, Griffith and Harvey (2001) show that differences in organizational cultures can create conflict among network participants. They suggest a number of ways to negotiate the strength and continuity of a relationship. According to them, this can be done if the network develops (1) cultural understanding, i.e. a set of abilities and cultural knowledge that enables appropriate and meaningful interactions with people of divergent national and organizational cultures; (2) cultural interaction, i.e. cultural adjustments and integration over time due to the intercultural communication; (3) communication competence at the level of national and organizational cultures, i.e. abilities and knowledge related to communication to enable appropriate and meaningful communications with network partners; and (4) communication interaction, i.e. a mutual communication culture within a relationship.

A mismatch of organizational values among the members of a network is, however, often inevitable. When such a mismatch occurs, it can be handled by "cultural mediators" (Crane 1998) or "relationship promoters" (Walter 1999). These are individuals or groups of

individuals within the network that act as bridges and facilitate dialogue and exchange processes between relationship partners. In effect, they act as translators or interpreters of cultural knowledge between the network partners by providing shared vocabularies and frames of reference to facilitate communication and the development of mutual trust and commitment (Crane 1998; Walter 1999).

In light of the above literature review, it is no surprise that a number of researchers have suggested that shared values within relationships and networks require more study. Among these, Jones et al. (1997) urge relationship and network scholars to pay more attention to shared values as a governance mechanism in network cooperation. At a more general level, Welch and Wilkinson (2002) offer a review of network studies by the IMP group, noting that these studies are mainly focused on three dimensions of networks – actors, resources, and activities (i.e. the ARA model) – while only little research has been done on another dimension of business networks: namely, on schemas or ideas including shared values.

However, voices of criticism have also been heard. Desmond (2004) criticizes the tendency of relationship and network scholars to discard bureaucratic forms of control and to favor alternative forms of control like cultural or values-based control. He argues that these alternatives often cannot replace bureaucratic control, but more usually serve to complement it. He goes on to claim that although cultural control can be powerful when it works, managers should be careful in applying such control because it may lead to reverse effects to those intended (Desmond 2004; see also Brytting and Trollestad 2000). Kunda (1992) has shown that cultural control programs easily produce unwanted effects, as attempts to create a strong organizational culture may alienate some member groups and make them ambivalent and cynical towards the espoused culture. This criticism is a good indication of the difficulties of cultural or values-driven management. Yet, despite such critical remarks, we need a better understanding of organizational values and their connections to and effects on network cooperation.

2.4 Summarizing the theoretical framework: Values and network cooperation

This section summarizes and discusses the theoretical framework of the current study. The summary is a synthesis of the discussion and concepts presented in the previous three sections (Sections 2.1, 2.2, and 2.3). The key concepts which provide the theoretical framework of the study are: *strategic networks*, *strategic networks of collective action*, *network cooperation and its successfulness*, *network management*, *organizational values*, *value congruence*, and *values-driven management*.

The theoretical framework is shown in Figure 3. The key “contextual” concepts of the framework are *strategic networks*, *strategic networks of collective action*, and *network management*. These concepts define the context of the research framework and thereby also the generalizability of the results. The “external” limits to generalizability are determined by the concepts of *strategic networks* and *network management*, or the context within which I aim to answer the research questions. The “internal” limits to generalizability are specified by the concept of *strategic networks of collective action*, as the case of this study is one such network. I will later (in Section 5.4) provide evidence that the results can be extended beyond the internal limits of *strategic networks of collective action* into the external limits of *strategic networks*.

The remaining concepts, *network cooperation and its successfulness*, *organizational values*, *value congruence*, and *values-driven management*, provide the key “functional” elements of the framework. The outcome factor is the *successfulness of network cooperation*, defined as the degree to which the voluntary and reciprocal acts by network members contribute to the network achieving its common goals. The antecedent factors are *organizational values* and *value congruence*. Organizational values refer to the beliefs held by organizational actors about desirable end states or modes of behavior which serve as the basis for making choices, and value congruence as the extent to which values are shared among actors. Finally, the managerial or moderating factor is *values-driven management*, for which I offered two

(competing) definitions: Values-driven management is (1) the process of selecting core values and implementing an action plan to increase congruence of these values, or (2) the means by which management can increase awareness and understanding of organizational values within an organization in order to sensitize and prepare organizational members for the positive and negative effects that values may have on the functioning of the organization.

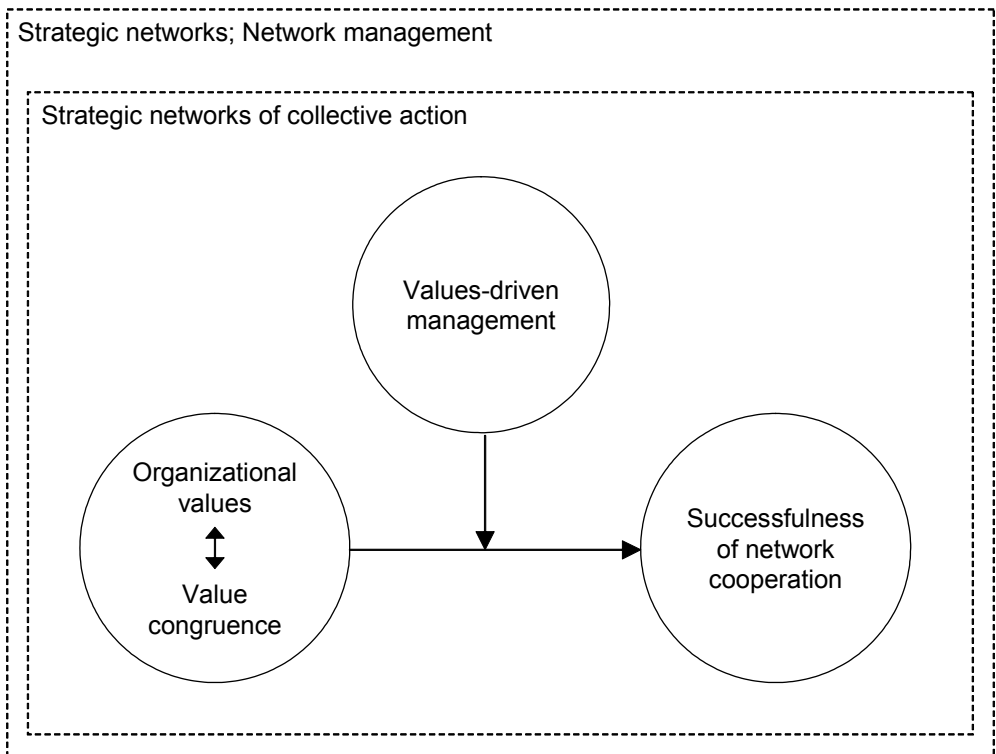


Figure 3. Theoretical framework for studying values-driven management in networks.

The research questions of this study focus on the functional elements of the framework as well as on the relationships between them. The first research question concerns the connection between three key concepts: *organizational values*, *value congruence*, and *the successfulness of network cooperation*: What is the influence of value congruence on the

successfulness of network cooperation? (RQ1) The second and third research questions focus on the content of *values-driven management* and its connections to the other three functional elements: What are the key characteristics of network-level values-driven management? (RQ2) What are the potential means of values-driven management at the network level? (RQ3)

The research framework, thus, is tuned to answering my three research questions, and lays down the following, theory-driven basic assumptions of the study:

- The degree to which cooperation within a network is successful varies, and it is possible to observe such variation. Further, the successfulness or unsuccessfulness of network cooperation is the result of the voluntary and reciprocal acts that network members take to reach their joint goals. (E.g. Ritter et al. 2004; Möller et al. 2004; and Williams 2002)
- Network members have beliefs about desirable end states and modes of behavior, i.e. organizational values. The degree to which these beliefs are shared, i.e. value congruence, among the network members varies. It is possible to observe such organizational values as well as variations in their congruence. (E.g. O'Reilly and Chatman 1996; Connor and Becker 1994; Martin and Meyerson 1988; Meglino and Ravlin 1998; and Martin 2002)
- Organizational values and value congruence are likely to have at least some kind of influence on the voluntary and reciprocal acts that network members take to reach their joint goals, which affects the cooperative activities of the network members. This, in turn, has consequences in terms of cooperation successfulness. It is possible to observe the influence of values on network cooperation and the successfulness of cooperation. (E.g. Dwyer et al. 1987; Jarillo 1988; Ring and Van De Ven 1994; and Morgan and Hunt 1994)
- Managerial intervention – i.e. values-driven management – can, at least to some extent, influence the relationship between organizational values, value congruence, and the successfulness of network cooperation. It is possible to

observe such managerial interventions and their effects. (E.g. Dwyer et al. 1987; O'Reilly and Chatman 1996; Faulkner 2003; and Desmond 2004)

The research framework described above was used as a guide in data collection and analysis and in drawing the theoretical conclusions of this study. In other words, it acted as a lens through which the specifics of the case and the data were assessed and which helped me to use my “imaginative powers and break away from the confines of mundane reality” (Alasuutari 1996, 374-377). The details of my research strategy are discussed in the next chapter.

3 RESEARCH STRATEGY: A CASE STUDY OF PHARMA INDUSTRY FINLAND (PIF)

The objective of this study is to gain a better insight into the concept of network-level values-driven management, its practice, and its usability. This objective calls for a research strategy aiming at theory generation, which is the topic of this chapter. I start by clarifying some basic choices relating to the research strategy. First, I describe the ontological and epistemological worldview of this study, namely moderate constructionism (Section 3.1). Next, I explain why and in what respects the research process is abductive rather than inductive or deductive (Section 3.2). The following sections justify my choice of the single-case study method for this study (Section 3.3) and elaborate on the validity, reliability, and generalizability of the results (Section 3.4). Section 3.5 presents the empirical case of Pharma Industry Finland, PIF, explains the reasoning behind the case selection, and describes the case design. The final section summarizes the processes of data collection and data analysis (Section 3.6).

3.1 Moderate constructionism as worldview

The ontological and epistemological worldview adopted in this study is closer to a constructionist as opposed to a positivist paradigm (for discussions of these paradigms, see e.g. Lincoln and Guba 2000; and Schwandt 2000). Tikkanen (1996) points out that this kind of constructionist philosophy of science is widely held in Nordic research on business networks, and suits well to research aiming at theory generation such as the current study. Constructionist research on business networks looks at reality from a more or less subjective and situation-specific point of view, acknowledging that its interpretations are inevitably influenced by the researcher's analytical and theoretical frameworks, by the activities of both researcher and informants, by the context of the research setting, and so on. Knowledge produced by network research along this line of thinking should, therefore, be regarded as context-specific and socially constructed. (Tikkanen 1996)

The constructionist paradigm represents postmodernist thinking. The core of postmodernism is “the *doubt* that any method or theory, discourse or genre, tradition or novelty, has a universal and general claim as the ‘right’ or the privileged form of authoritative knowledge,” while it does allow us to “know ‘something’ without claiming to know everything” (Richardson 2000, 928, emphasis in original). Whereas positivists adopt a realist ontology of knowledge (i.e. there is a reality, which is apprehendable) and post-positivists endorse a critical realist ontology of knowledge (i.e. there is a reality, but it is only imperfectly and probabilistically apprehendable), the constructionist perspective holds that there are multiple local and specific constructed realities (Lincoln and Guba 2000). Further, whereas positivists and post-positivists assume a dualist and objectivist epistemology of knowledge (i.e. there is a “real world” out there and we can make more or less objective, “true” observations of it), constructionist thinking regards “truth” as socially constructed and “objective” or “true” observations of reality as meaningless (Lincoln and Guba 2000; Schwandt 2000).

However, I disagree with the strong relativist argument that all knowledge claims are equally good, and adopt the view of **moderate constructionism** (Kvale 1995, 21; Schwandt 2000, 198-199, would call this "weak constructionism"). Moderate constructionism claims that some constructions of knowledge are better than others and that there are ways to determine

which they are. Hence, although I reject the positivist argument of a “universal truth”, I *do* accept the possibility of specific local, personal, and community forms of truth.

Perhaps my viewpoint is closest to Longino’s (2002; see also Schwandt 2000, 199) account of what constitutes scientific knowledge. She brings down the dichotomy between a rational and a social epistemology of knowledge and advocates a middle-ground approach which acknowledges both the rational and the social aspects of knowledge. Scientific knowledge is in part the product of processes of social negotiation, but it is not *only* a matter of social negotiation (Longino 2002, 203). In particular, Longino defines epistemically acceptable knowledge *both* in terms of the traditional empirist norm of justification by empirical data *and* in terms of the social norms applying to discursive interactions that constitute reasoning: “Some content *A* is *epistemically acceptable* in community *C* at time *t* if *A* is or is supported by data *d* evident to *C* at *t* in light of reasoning and background assumptions which have survived critical scrutiny from as many perspectives as are available to *C* at *t*, and *C* is characterized by venues for criticism, uptake of criticism, public standards, and tempered equality of intellectual authority.” (Longino 2002, 135-136, emphasis in original)

3.2 Abduction as research approach

Only rarely are learning, research, and knowledge generation exclusively deductive (i.e. theory-driven) or inductive (i.e. data-driven). Advances in learning and research, especially in research aiming at theory generation such as in the current study, seem to require both: “Learning takes place in the interplay between search and discovery. Where search is concerned, the current framework is used to guide the research process in a cumulative manner. Discoveries, which cannot be planned in advance, force us to reconsider the prevailing framework.” (Dubois and Gadde 2002)

My approach to the research process is similar to what Dubois and Gadde (2002) call *systematic combining*, which follows the logic of **abduction** rather than of induction or deduction. Systematic combining is a process characterized by constantly moving between the empirical and a model world, in which the theoretical framework evolves simultaneously

with the empirical fieldwork and case analysis. During this process, “the research issues and the analytical framework are successively reoriented when they are confronted with the empirical world” (Dubois and Gadde 2002, 554). In other words, the approach involves two processes: matching theory with reality, and directing and redirecting the course of the study. Matching is about going back and forth between framework, data sources, and analysis. Direction and redirection of the study is a feature by which matching can be achieved: as the researcher reveals new aspects of reality in the study process, both theory and collection of empirical data may need to be directed and redirected over again. Dubois and Gadde (2002) consider systematic combining as especially suitable for single-case research which aims at theory development, such as the current study.

The current study follows an abductive research approach; hence, it is neither entirely inductive nor entirely deductive, but something in between. On the one hand, abduction relies more on theory than induction, which improves the explanatory power of case studies. On the other hand, abduction allows a less theory-driven research process than deduction, thereby enabling data-driven theory generation. Abduction is a beneficial research approach especially for assessing old theories and developing new ones, because “theory cannot be understood without empirical observation and vice versa”. (Dubois and Gadde 2002, 555)

The process of any research project is determined by the chosen research approach – in this study by the abductive research approach. The abductive approach does not, however, as such determine the structure of the research *report*, the final product of the research process. There are at least two alternative structures for the research report. Firstly, the report can act as a more or less accurate “mirror” of the actual research process. The structure of the report then follows the research process, so that in the case of an abductive study the report would start with a description of the initial research setting, and then proceed through a series of elaborations back and forth between the theoretical framework and the empirical fieldwork and data analysis. In such a report it is not easy to determine which part is theoretical and which is empirical, as the theoretical and empirical discussions are mixed throughout the report. This structure is optimal for following the logical steps taken by the researcher in the course of the research process.

Secondly, the research report can be written in a more traditional reporting style, in which theoretical discussion and empirical fieldwork and analysis are reported in separate parts of the report. Such a report frequently starts with a discussion of the theoretical framework and the original research setting, continues with a description of the empirical fieldwork and data analysis, and concludes with a discussion of the theoretical contribution of the findings. This reporting style does not attempt to mirror the research process of an abductive study, but instead, tries to clarify the theoretical and empirical merits of the study, making a clear distinction between the two.

Both of the above reporting styles have their advantages and disadvantages. The mirroring style reports on the actual logic and reasoning behind the research process more accurately. Yet, it often requires more effort from the reader than the traditional style, as the reader will need to spend more time to engross him- or herself in the study to fully grasp its theoretical merits. The traditional style of reporting, on the other hand, draws a clearer line between the theoretical and empirical parts of the study, so that it is easier for the reader to access the theoretical and empirical merits of the study. Obviously it does not convey the logical reasoning behind the research *process* as specifically as the mirroring style. Nevertheless, when implemented rigorously, both styles should produce reports of high quality. Selecting the style of reporting is, therefore, more a matter of taste than a matter of quality.

In this study, I chose to report its results using the traditional style. Thus, although I followed an abductive research approach, I report on the results separately in relation to the theoretical framework, the empirical fieldwork and data analysis, and the theoretical conclusions. Consequently, this research report is divided into three main parts: discussion of the theoretical framework of this study (Chapter 2), discussion of the research strategy and empirical analysis (Chapters 3 and 4), and discussion of the theoretical conclusions (Chapter 5). Although I report on these separately, it does not mean that the actual research proceeded along this structure, from framework through empirical analysis to conclusions. To the contrary, the contents of each of the parts evolved throughout the research process in a continuous, iterative process. The three parts of this study, separately and jointly, represent the end result of the research process; it is not meaningful to try to determine which one preceded or succeeded the other.

The disadvantage of the chosen reporting style is that some of the logical steps taken during the study fail to come across as clearly as they would if I had used a mirroring style. I still believe that the chosen style makes the theoretical and empirical merits of this study more accessible and comprehensible, and its results easier to understand and utilize.

3.3 Single-case study as methodological tool

The current study is a **single-case study**³. Case study research has been commonly and successfully used to study business networks, especially within the Industrial Marketing and Purchasing (IMP) tradition (Halinen and Törnroos 2004; Welch 2000). Case studies are suitable for exploring business networks, because they can capture the dynamics of the studied phenomenon and provide a many-sided view of a situation or study object in a specific context (Halinen and Törnroos 2004; Easton 1995; Eisenhardt 1989). Borch and Arthur (1995) have suggested that strategic network research should lean towards subjectivist research designs – e.g. in-depth case studies – instead of objectivist research designs, because objectivist research often fails to appreciate that networks are complex and dynamic phenomena, with strong relationships between sets of variables at different levels and in different contextual settings.

Halinen and Törnroos (2004, 1286) define a case strategy in the context of network research as “an intensive study of one or a small number of business networks, where multiple sources of evidence are used to develop a holistic description of the network and where the network refers to a set of companies (and potentially other organizations) connected to each other for the purpose of doing business.” The aim of case studies is to acquire a deep understanding of the nature, significance, and functioning of one or a few cases, and to

³ Using Yin’s categorization of different case study designs (Yin 2003, 39-41), this study could also be defined as an *embedded* single-case study. The case network is Pharma Industry Finland (PIF), but the focus is not only on PIF’s cooperation at the general level but also on several “embedded” subcases of network cooperation that PIF has been involved in.

report on this understanding thoroughly, carefully, and credibly to the larger scientific audience (Lukka and Kasanen 1993).

A common argument against case studies is that they provide little basis for scientific generalization (Yin 2003, 10; Lukka and Kasanen 1993). Eisenhardt (1989) addresses this concern by introducing a process for building more generalizable theories from case study research. Her theory-building process is based on the use of multiple cases and cross-case analysis, which allows the researcher to draw more generalizable theoretical conclusions.

Dyer and Wilkins (1991), however, wrote a critical review of Eisenhardt's theory-building method. They see the method as paradoxical because, although its purpose is theory generation, yet it includes many of the attributes of hypotheses testing. While they do not think that Eisenhardt's approach is necessarily wrong, they do believe it is limited in important ways because it neglects some of the strengths of classic, in-depth case studies. Dyer and Wilkins' (1991) critique is especially directed against Eisenhardt's advocacy of multiple-case instead of single-case studies. They argue that the essence of classic, in-depth case study research is that a careful scrutiny of just one, specific case enables the researcher to discover new theoretical aspects and question old ones. Dyer and Wilkins further argue that multiple-case studies often lead to rather "thin" descriptions, while single-case studies can produce "rich" and "deep" descriptions. Single-case studies can, therefore, reach a deeper level of contextual insight and understanding, whereas multiple-case studies are "likely to provide a rather distorted picture, or no picture at all, of the underlying dynamics of the case" (Dyer and Wilkins 1991, 615).

In the context of business network research, Borch and Arthur (1995, 425) similarly question the use of multiple-case studies, or what they refer to as a "quasi-quantitative tool", because such methodology increases the risk of overlooking certain features of the studied problem and the complex network environment. Theory generation in such dynamic settings calls for methodologies that can contribute to deeper contextual insights (Borch and Arthur 1995). Network researchers who engage in case study research should, therefore, aim to take the dynamics and context-specificity of business networks better into account (Tikkanen 1996).

Dubois and Gadde (2002) also point out that learning from a particular case should be considered a strength rather than a weakness, claiming that in-depth case studies offer the best way to understand the interaction between a phenomenon and its context. Further, Halinen and Törnroos (2004) add a word of warning that multiple-case designs and comparisons between cases carry the risk of losing the value of a rich holistic description that can reveal the complex and changing nature of a business network. They further suggest that superficial multiple-case descriptions may undermine the explanatory power of case studies; while multiple cases can provide some theoretical generalizability, the essence of single-case studies lies not in generalizability but in their capacity to understand phenomena.

It is fair to say that both single-case and multiple-case studies have their own strengths and weaknesses. They are complementary means of knowledge production. The reasoning behind my choice in this study is that the single-case approach enables an understanding of the phenomenon (1) to assess the current assumptions of values-driven management in networks and (2) to explore and generate a new theory of network-level values-driven management. The next section discusses the implications of this choice in terms of the quality of the study.

3.4 Quality of the study: Validity and generalizability

Validity, reliability, and generalizability are often put forward as hallmarks of “true scientific research” (Kvale 1995, 20). However, these constructs derive from modern, positivist philosophies of science and, as such, are not applicable to postmodern, constructionist research contexts. Kvale (1995, 20), an advocate of social constructionism, attacks this “trinity” of reliability, validity, and generalization as follows: “In modern social science, the concepts of validity, reliability, and generalization have obtained the status of a scientific holy trinity. They appear to belong to some abstract realm in a sanctuary of science, far removed from the interactions of the everyday world, to be worshipped with respect by all true believers of science.”

These modern conceptions of validity, reliability, and generalizability need to be replaced by an understanding of what constitutes high-quality research in the postmodern era. Some qualitative researchers have simply ignored or dismissed them, but others have offered extended conceptions to fit a postmodern philosophy of science (Kvale 1995). I follow the latter approach by offering a short account of what I understand by validity, reliability, and generalizability in the current study.

Validity and reliability

From a constructionist perspective, the central issue of validity has to do with knowing when specific social inquiries are true enough to some human construction that it is safe to act on them, or, more importantly, that members of the studied community may act on them (Lincoln and Guba 2000, 180). Although no final answer to a specific research problem could be found, we can try to approach a possible answer from different angles.

First, holding on to Longino's (2002) definition of valid knowledge (see Section 3.1), the validity of research can be determined by (1) whether its truth claims are supported by data, (2) whether its claims, data, and chain of arguments linking them together are acceptable to the scientific community in light of critical reasoning and background assumptions, and (3) whether the community that determines its validity is characterized by observance of the norms of criticism, uptake of criticism, public standards, and "tempered equality" of intellectual authority.

Another way to approach validity is to assess its "authenticity". To use Lincoln and Guba's (2000, 180-181) terms, authenticity of research can be determined by its fairness, ontological and educative authenticity, and catalytic and tactical authenticity. In terms of fairness, authenticity means that all stakeholder views, perspectives, claims, concerns, and voices are apparent in the final product of research. However, fairness does not mean increasing the objectivity of research in the traditional, positivist sense, but simply ensuring that all voices in the inquiry have a chance to be heard in the text. For ontological and educative authenticity, valid research should raise the level of awareness of the research participants and the public about the knowledge produced by research. Finally, catalytic and tactical authenticity means that research should encourage action among the study participants and

prompt the researcher to train or “empower” them in specific forms of social and political action should they desire such training.

According to Kvale (1995, 19) and the postmodern constructionist perspective, knowledge should be validated through practice. Kvale outlines three approaches to validity in constructionist research. Firstly, validity can be considered as an expression of craftsmanship, working towards higher credibility through continual checking, questioning, and theoretical interpretation of findings. The emphasis, thus, moves from inspection at the end of the research process to quality control throughout all stages of knowledge production. Secondly, validity can be seen as a communicative concept. Here the emphasis is on testing the validity of knowledge claims in a dialogue. Thus, validity is decided or developed in a communicative process involving the study participants (informants), the scientific community, and the general public, in addition to the researcher. And thirdly, a pragmatic or action-oriented concept of validity emphasizes the notion of “truth” as whatever knowledge that helps us to take actions which produce desired results in an ethical manner.

Richardson (2000, 934) looks at validity at a more abstract level and proposes “crystallization” as the central metaphor for validity of postmodern research instead of the notion of “triangulation”. The traditional idea of triangulation means using different methods to validate findings, assuming that there is a “fixed point” or “object” that can be triangulated. However, postmodernist thinking doubts that there is a fixed point or object upon which to triangulate. Richardson, therefore, suggests that the central metaphor of validity, “triangle”, should be replaced by “crystal”, or “prism”, which “combines symmetry and substance with an infinite variety of shapes, substances, transmutations, multidimensionalities, and angles of approach,” and provides “a deepened, complex, thoroughly partial, understanding of the topic.” Crystallized validity means knowing more, doubting what we know, and knowing that there is always more to know (Richardson 2000).

All of the above perspectives on validity are more or less relevant to the current study. Although Richardson’s (2000) crystal metaphor is a fairly romantic illustration, it nicely summarizes the point that there is no such thing as *the* valid knowledge in studies with a constructionist worldview. Instead, there are multiple valid approaches, each of which helps us to gain a better understanding of the world. Nevertheless, *moderate constructionism*

claims that some of these may be more valid than others, which is why it is necessary to explicitly define how to measure the quality of a study.

The validity of the present study is defined by (1) the extent to which it increases our knowledge of the studied issues and awareness of the new knowledge, (2) how well that knowledge is supported by data-driven argumentation which passes the critical scrutiny of the study participants, the scientific community, and other stakeholders, and (3) how well the study gives fair accounts of the voices of all participants of the study. During the research process I have tried to uphold the quality of this study in terms of data collection, data analysis, empirical findings, and theoretical conclusions, by resorting to the above ideals of research validity. The readers of this study, whether academically or managerially oriented, will be the final judges of how well I have succeeded in this task.

Generalizability

In light of the foregoing discussion, I contend that a single-case study such as this one should not be evaluated so much in terms of generalizability (or the lack of it), but in terms of whether or not it succeeds in contributing to increased contextual insight. Indeed, from a constructionist viewpoint, the purpose of case studies is not to reveal universal truths but to generate local and historically specific understandings (Alasuutari 1996).

Lukka and Kasanen (1993) note, however, that if a case study can offer a credible understanding of a specific context, this understanding may be applicable to other contexts as well. In this sense it might be possible – in a non-positivist and non-probabilistic sense – to “generalize” the results of one specific research context to other contexts. A case study could, therefore, be considered generally useful, if it is based on a thorough understanding of the following four elements (Lukka and Kasanen 1993): (1) theoretical knowledge of a substance area, including concepts, models, claims, interpretations, and research tradition; (2) prior empirical results and their interpretations, including laboratory, survey and case studies; (3) the researcher’s own empirical results and their interpretations; and (4) the environment of the studied phenomenon, including its history, institutions, and markets.

A researcher who is thus theoretically and empirically informed can discuss “the relevance of the case results in a larger (but historically and culturally specific) framework, a process that is comparable to generalization in survey research” (Alasuutari 1996, 378). The resulting theoretical framework can then be applied in studying other phenomena as well (Alasuutari 1996, 373).

The above perspective is in line with the approach that I have taken to “generalizing” the results of the current study. I will give examples of how the results of this study could be applied in studying other cases besides PIF in Section 5.4.

3.5 Empirical case: Pharma Industry Finland (PIF)

3.5.1 Introduction of the empirical case

Pharma Industry Finland (PIF; in Finnish *Lääketeollisuus ry*), the empirical case of this study, is a typical example of a horizontally aligned strategic network of collective action. As an industry association, it looks after the policy interests of the research-based pharmaceutical industry in Finland, with the objective to develop the competitiveness of the industry and relevant research as well as its operating environment both in Finland and the EU. The economic, industrial and sociopolitical legislation that governs the pharmaceutical industry is its main target of influence. At the time of gathering interview and documentary data for this study, PIF had about 70 members, representing almost all of the pharmaceutical companies engaged in research, manufacture and marketing of medicinal products in Finland. (PIF 2005)⁴

PIF has multiple **strategic goals**. Its key tasks are to influence legislation relating to prices and reimbursements of medicinal products and sickness insurance, to maintain communication and public relations, including publications and statistics regarding the pharmaceutical industry, and to engage in activities of voluntary control of medicinal marketing. The current study focuses on two of these strategic tasks, namely those related to influencing the pertinent legislation on prices and reimbursements, and the voluntary control of medicinal marketing.

⁴ The case description in this section is based on interview data (see Appendix 5) and documentary analysis of PIF's internal memos, unless otherwise indicated with a citation.

The board of directors, expert committees, and staff personnel form the backbone of the **organization of PIF** (see Figure 4). The board sets its strategic goals and steers the expert committees and the staff personnel. The twelve seats of the PIF board are held by representatives (usually CEOs) of the member companies, so that seven of them represent the ten largest network members and the remaining five represent the other network members. The general director of PIF acts as the secretary of the board. The board meets around once a month.

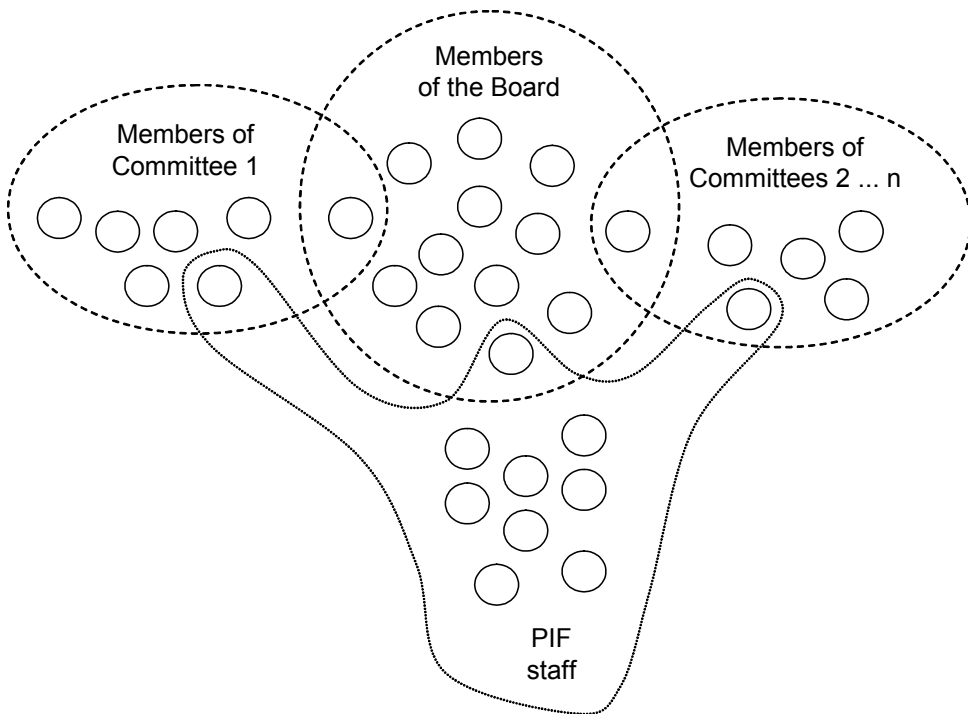


Figure 4. PIF organization in May 2004.

The expert committees prepare and implement the strategic decisions made by the board. In practice this means that the committees make available their expertise and specialized knowledge to the board and staff personnel as requested by them. Among the expert

committees, the *Medicines Policy Committee* (previously known as the *Pricing and Reimbursement Committee*) concentrates on issues relating to the prices and reimbursements of medicines and sickness insurance legislation, while the others focus on other specific subgoals on PIF's agenda. In addition to its expert committees PIF occasionally sets up ad-hoc committees assigned to specific projects, such as drafting of the Code of Marketing of Medicinal Products (a guidebook for voluntary control of marketing of medicinal products). The seats of the expert committees are held by representatives of PIF member companies; one seat in each committee is held by a member of the board and one seat by a PIF staff member who also acts as the secretary of the committee. At the time of the interviews for this study altogether seven expert committees were in operation.

The role of PIF staff personnel is to assist the board and take care of the day-to-day operations of the association. To do this, the staff frequently engages in discussions with the expert committees to access to their expertise in the field. The staff personnel include a general director, director of interest supervision, communications director, director of government and external affairs, and other staff (20 persons in total).

The **selection of representatives** to the board of directors is based on a democratic election. PIF members may suggest candidates for the board, after which they vote on the candidates, each member having one vote. The board members are chosen by a simple majority vote. The election is not based on their company background but on their personal capabilities; they can be selected due to their social networks with key politicians, their expertise in the field, and so forth. Because each board member is chosen by a democratic election, the member companies do not just appoint their own representatives to the board – at least not in principle. In practice, however, the largest PIF members are usually able to “push” their own representatives for selection as board members if, and when, they have enough power of influence to do so (e.g. they might threaten to leave PIF if they do not get enough voice on the board). The board members are elected annually for a three-year term, and each year four members retire to guarantee member circulation.

Representatives to the expert committees are appointed by the board for three-year terms. They are selected based on their expertise. No member firm can have more than one representative in each committee. Many committee representatives are from member firms

that also have a representative on the board of directors, but the board always tries to select members to the committees also from firms that are not represented on the board to ensure democracy in decision making within PIF. Additionally, one representative in each committee is also a board member to guarantee a seamless flow of information between the board and the committees.

Because the board members, and thus ultimately also the committee members, are chosen by a democratic election and not appointed by PIF's member firms, it is possible to question whether PIF really is a network of firms or of just individual persons. In a vertical demand-supply network, for instance, the member companies are usually able to appoint their own representatives to the network's top governing bodies. This is necessary to ensure that the various interests of all members are fully taken into account. However, the situation is different in a network of collective action, such as PIF. This type of network often consists of numerous members (like PIF with its membership of 70), so it is impossible to have all of them represented on the board. Therefore, the network has to somehow reduce the number of board representatives, and this can be achieved by having them elected democratically. In a vertical demand-supply network, a democratic election is often not sufficient to guarantee that the interests of all members are taken into account, but in a network of collective action a democratically elected board is more functional because from the very start cooperation builds on a general agreement of shared interests (Araujo and Brito 1998). The board of a network of collective action such as PIF operates on the premise that shared interests have been negotiated by its member companies. Hence, although the individual board members of PIF are chosen by a democratic election, the network itself is built on the fundamental agreement that it is a network of companies, not of individuals.

Figure 5 illustrates **PIF's internal and external connections to different actors**. There are four kinds of actors networked with each other: (1) member companies represented on the board, (2) member companies represented on committees, (3) member companies more loosely involved in network operations, i.e. neither on the board nor on committees, but entitled to participate in PIF activities through information sharing, and (4) PIF staff personnel.

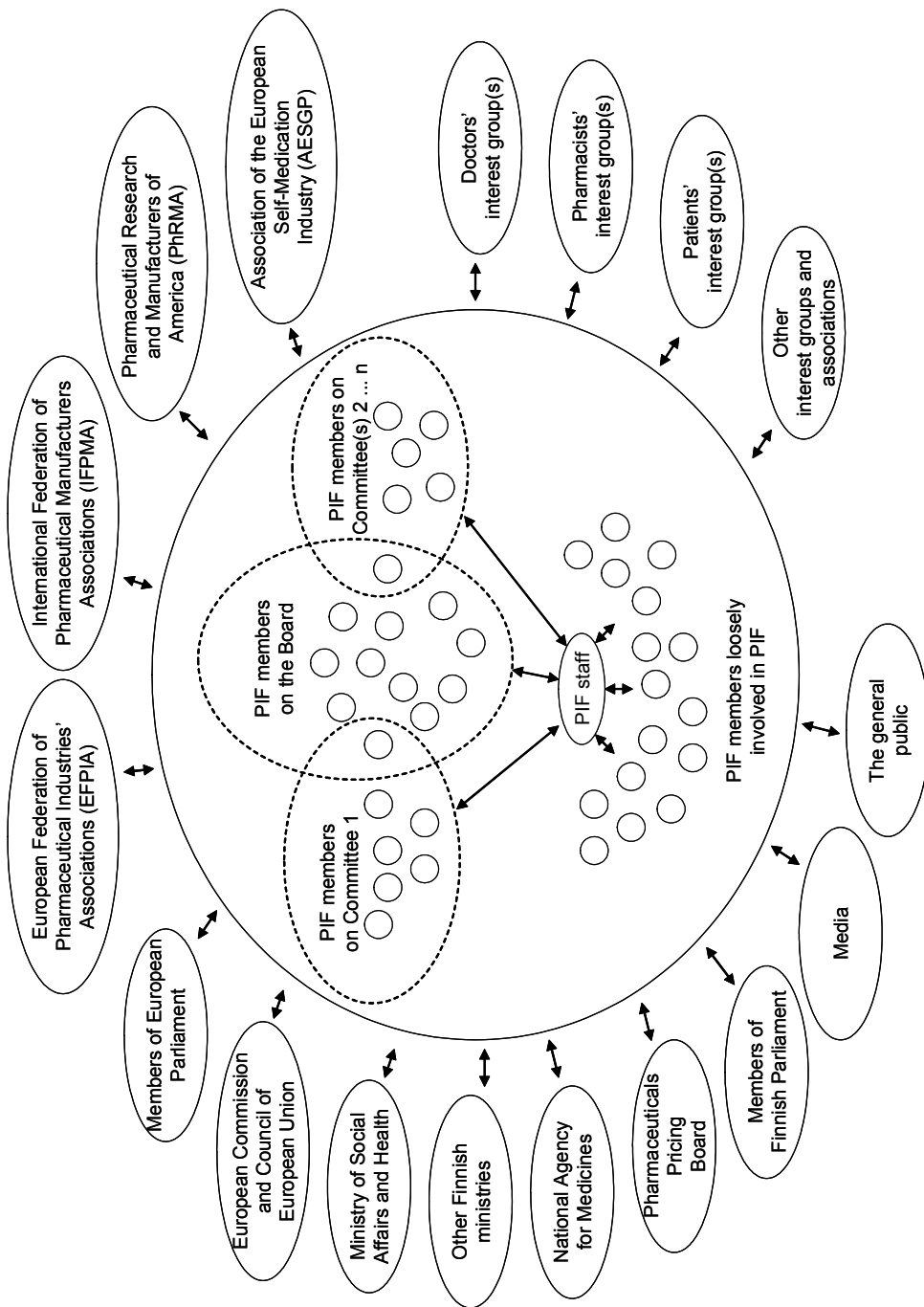


Figure 5. Map of PIF's internal and external networks.

PIF is externally networked with a variety of actors, such as its main targets of influence: governmental authorities like the Ministry of Social Affairs and Health, National Agency of Medicines, Pharmaceuticals Pricing Board, Members of the Finnish Parliament, Members of the European Parliament, European Commission, and Council of the European Union. PIF naturally addresses its public relation activities also to the media and the general public. The European and international allies of PIF include the European Federation of Pharmaceutical Industries' Associations (EFPIA), International Federation of Pharmaceutical Manufacturers' Associations (IFPMA), Pharmaceutical Research and Manufacturers of America (PhRMA), and Association of the European Self-Medication Industry (AESGP). Finally, PIF also cooperates with other industrial and citizens' interest groups, e.g. with doctors', pharmacists' and patients' associations.

3.5.2 Case selection

As established earlier, this study aims at developing the concept, the practice, and the usability of network-level values-driven management. Yin (2003, 40-41) suggests that a *critical case* can be used in studies aiming at theory generation such as the current study, as it enables both the assessment of current theories and the generation of new theory based on the results of such assessment. I chose PIF as the empirical case of this study having this objective in mind. In other words, I chose PIF as the case of this study, because I thought it would enable me to assess the concept, the practice, and the usability of values-driven management in a network, and then generate new theory based on the assessment.

More particularly, I sought a critical case that would pass the following three criteria. Firstly, the empirical case had to be one in which values and their congruency might have different types of impact on the successfulness of network cooperation. In particular, I wanted it to be one where I might expect to find both successful and unsuccessful instances of network cooperation, affected by various combinations of congruent and incongruent values. This would allow me (1) to examine whether values-driven management would be applicable at the level of a network and (2) to generate a model showing the connection of values and value congruence to the successfulness of network cooperation. I reasoned that a cooperative network like PIF would provide a good critical case of that kind. Competition, or a

combination of cooperation and competition, was bound to create various situations of successful and unsuccessful collaboration coupled with various value-related conflicts and negotiations. My preliminary discussions with PIF's general director, together with the background data I found on the Internet, confirmed this expectation, so I felt confident to proceed with PIF towards my final selection.

Secondly, the empirical case had to be a critical case where values and value congruence would be manifested in the daily operations of network members. Should this criterion not be met, I would be unable to generate any theory of the influence of values on network cooperation or of network-level values-driven management. PIF met this criterion very well, since its members operate in a field of business where values and dealing with values form an inherent part of their daily business. Whether they want to or not, pharmaceutical companies have to be sensitive to and deal with values like ethicality and social responsibility, because their actions may have huge impacts on the wellbeing of individual patients, and even of entire societies. As a matter of fact, pharmaceutical companies have to cope with difficult, value-laden questions in such commonplace areas as pricing and research and development. Actors in this field of business have to answer routinely to highly sensitive questions, such as what is an acceptable level of prices for pharmaceutical products, if too-high prices can lead to adverse consequences preventing treatment of disadvantaged patients; and what areas of R&D should be invested in, if investments in one area can cancel investments in other area and perhaps leave some patients in despair. Hence, one reason for selecting PIF as the empirical case was that I could expect companies in the pharmaceutical field to be very familiar with and understand the meaning of organizational values and values-driven management from the viewpoint of their business, their strategies, and their daily operations.

Thirdly, but not least importantly, the case had to be one which would give me good access to its empirical data. By meeting this criterion PIF became a strong candidate for the empirical case study. I was able to contact its general director directly through a family contact, and my first discussions with him confirmed that PIF could provide good access to in-depth empirical data through archival records and interviews with the top management of its network members.

Yet, I had some concerns relating to the selection of the case. One had to do with the criterion that value congruence and incongruence both should be manifested in the daily operations of the network. Before actual data collection I was concerned that I might not find any incongruent values, because a network like PIF naturally consists of actors that are more similar than dissimilar to each other. Fortunately, in the end I was able to find value incongruence within PIF.

I was also concerned whether PIF really represents a strategic network or, more importantly, a strategic network of collective action. Some might argue that it is not a strategic network, but merely an association. In Section 2.1 I defined a strategic network as *an intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic business goals* and a strategic network of collective action as *an intentionally developed and managed interorganizational cooperation between three or more organizations for the pursuit of mutually beneficial strategic changes in their environment*. It is evident that (1) PIF is an intentionally developed and managed network, (2) it is based on interorganizational cooperation between more than three organizations, and (3) it pursues mutually beneficial strategic changes in their operating environment by lobbying for changes in economic, industrial and sociopolitical legislation. Hence, from the viewpoint of these theoretical definitions, PIF is a strategic network of collective action.

One further concern in case selection referred to the generalizability of my research results to other types of networks – e.g. vertical and horizontal business networks. I already dealt with this concern in more detail in Section 3.4., and will offer some examples of how the results could be generalized to other types of networks in Section 5.4.

3.5.3 Case design

The current study can be considered an embedded single-case study. An embedded single-case study is defined by Yin (2003, 39-41) as one which includes two or more *embedded units of analysis*, or “subcases” as I will call them, within a single, holistic “overall” case.

The empirical, or overall, case here is Pharma Industry Finland, PIF, within which I collected data on various subcases of network cooperation. The subcases range from pricing and reimbursement issues to voluntary control of medicinal marketing. During data analysis I categorized the various subcases under four primary cases of network cooperation, each including two to four secondary subcases (see Figure 6).

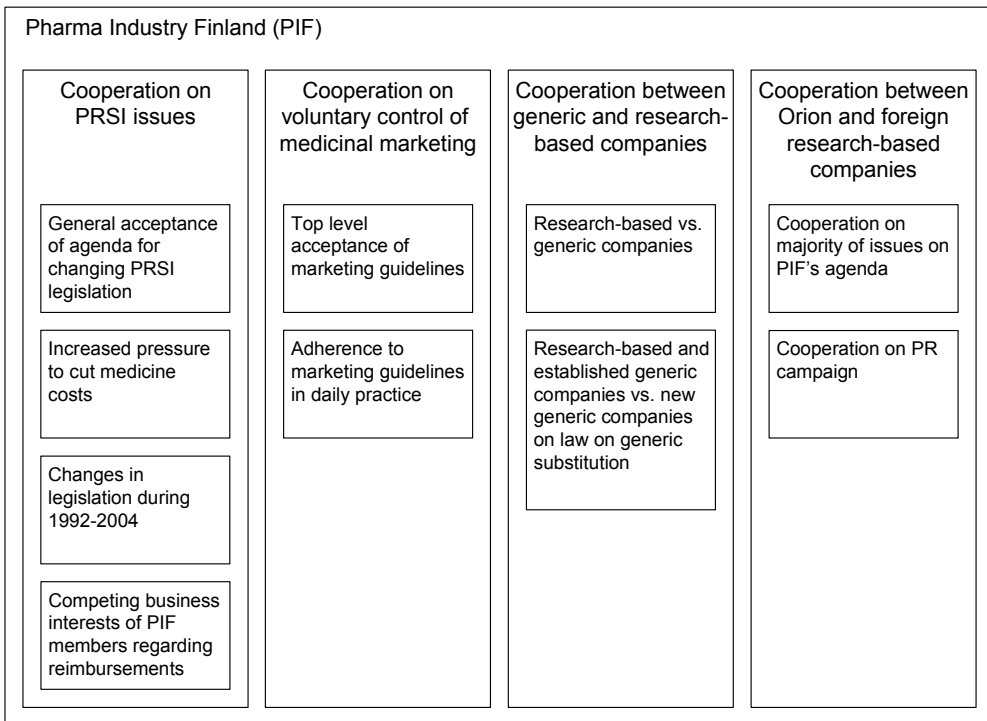


Figure 6. Case design: An embedded case study with four primary cases and ten subcases.

The final number of primary and secondary subcases was not determined prior to data collection and analysis. Rather, their number and categorization was decided and based on the analysis of the data. In addition to the four primary and ten secondary subcases I found a few other instances of network cooperation that did not fit into any of these. However, I decided to drop them from the final analysis because the data on these instances were

insufficient to warrant conclusions regarding values or network cooperation. Also, it seemed that a good level of data saturation was reached with the detected subcases.

The primary subcases of network cooperation are: (1) cooperation on pricing, reimbursement and sickness insurance (which will be referred to here as PRSI cooperation), (2) cooperation on voluntary control of medicinal marketing, (3) cooperation between generic and research-based companies, and (4) cooperation between Orion and foreign research-based companies.

I will now briefly describe the subcases shown in the Figure 6. The first primary subcase, *cooperation on PRSI issues*, concerns all PIF activities that are related to the economic, industrial and sociopolitical legislation of medicinal pricing, reimbursements, and sickness insurance.⁵ All of these issues are strategically important to the network members, as they have a direct influence on the level of their sales and profits. Within these activities I identified the following four secondary subcases.

- *General acceptance of PIF agenda for changing PRSI legislation* concerns PIF members' attitudes towards changing the legislation on PRSI. The key considerations here are: Which members support and which resist PIF's formulations of future changes to PRSI legislation? What is the cause for possible disagreements between PIF members?
- *Increased pressure to cut medicine prices* investigates outside pressure by the public and the Finnish government to cut medicine costs and the reactions of PIF members to the increasing pressure. The key considerations here are: Have PIF members reacted to the increased pressure differently? If so, how and why?

⁵ PRSI is sometimes used as an abbreviation for *pay-related social insurance*. However, in this study PRSI is used as an acronym for *medicinal pricing, reimbursement, and sickness insurance*.

-
- *Changes in legislation during 1992-2004* investigates certain changes in PRSI legislation and PIF members' reactions to such changes. The key considerations here are: Have PIF members reacted to the changes differently? If so, how and why?
 - *Competing business interests of PIF members regarding reimbursements* looks at how the differing business interests and product portfolios of PIF members have affected their cooperativeness in PRSI issues. The key considerations here are: Have differing business interests caused any disagreement between PIF members? If so, how and why?

The second primary subcase, *cooperation on voluntary control of medicinal marketing*, has to do with all activities of PIF regarding voluntary control of marketing behavior of pharmaceutical companies in Finland. These activities are strategically important to PIF members because they relate directly to the limits of advertising and marketing within the pharmaceutical sector and thereby affect the growth potential and competitiveness of the network members.

- *Top-level acceptance of marketing guidelines* examines just how unified PIF members stand behind the voluntary guidelines they have imposed upon themselves. The key considerations are: Do PIF members have different attitudes towards the marketing guidelines? If so, what are they and what are their causes?
- *Adherence to marketing guidelines in daily practice* looks at how PIF members take the guidelines into account in their own marketing activities. The key considerations here are: Do PIF members follow the marketing guidelines in practice? If not, why? How does this affect their cooperativeness?

The third primary subcase, *cooperation between generic and research-based companies* concerns cooperativeness between generic pharmaceutical companies, i.e. firms whose business model is based on selling medicines that are no longer protected by patents, and research-based pharmaceutical companies, i.e. firms whose business model is based on discovering and patenting new medicines and selling them, and how these different business models cause potential disagreements between them.

- *Research-based versus generic companies* examines cooperativeness between them at a general level. The key considerations here are: How do these different groups cooperate overall? Where, how and why do they agree and disagree?
- *Research-based and established generic companies versus new generic companies on the law on generic substitution* investigates a particular episode, the introduction of a new law on generic substitution in 2002-2003, and PIF members' reactions to it. The key considerations here are: Which members agreed among themselves, and which disagreed? How and why?

Finally, the fourth primary subcase, *cooperation between Orion and foreign research-based companies*, obviously has to do with Orion, a major player in Finnish pharmaceutical sector, and its cooperative relations with foreign research-based companies. Orion is in many respects unique among PIF members in that it has traditionally held a huge share of the market and a strong power of influence in Finland. Although these have slightly faded away lately, Orion continues to be the only major all-Finnish pharmaceutical company, with a product portfolio that differs from all other PIF members. Orion's unique characteristics occasionally seem to stir some trouble with other, foreign research-based companies.

- *Cooperation on a majority of issues on the PIF agenda* refers to Orion's cooperation with foreign research-based companies and studies why this cooperation appears successful – at least at the general level.
- *Cooperation on a PR campaign* focuses on a particular PR operation between Orion and foreign research-based companies, aimed at improving the overall image of the pharmaceutical industry – and how and why this episode ended up in a disagreement.

More detailed descriptions of these subcases are given in Sections 4.2 - 4.5.

3.6 Data collection and analysis

3.6.1 Collecting the data

The data of this study consist of interviews and archival data. The conducted interviews form the core of data, while the archival data are used more in a supportive role.

Interview data and selection of interviewees

The interview data comprise transcripts of interviews with 20 individuals. To select the interviewees, I formed a list of interview prospects (see Table 1) who had been on the board of directors and/or on the Medicines Policy Committee since 1992. This was a natural year to start from since PIF in its current form was founded in 1992.

The interview prospects in Table 1 are individuals who either held or had held core posts of power in PIF, especially when it comes to issues of prices, reimbursements and sickness insurance. I feel that the focus on this core group is well justified, because the creation and development of a collective-action network often rests on the shoulders of an inner circle of influential members (Araujo and Brito 1998) – and especially so in large networks of collective action such as PIF. These persons and companies are on my list because they could provide the “critical mass” necessary for the formation and operation of the network. As Araujo and Brito (1998, 28) write, even a “small subset of interested actors may be sufficient to mobilize resources toward the production of a collective benefit, despite the fact that the majority of members contribute little or nothing”.

Table 1. List of interview prospects.

Person	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
n	V	V	C	C	X				X	X	X	X	
n	X	X	V	V	C	C							
n	X	X	X	X	V								
n	X	X	X	X	X								
n	X	X	X	V									
n	X	X	X	X									
n	C	C											
N		X	X	X	X	X	C	C	X	X	X		
N			X	X	xC	xC	vC	vC	c	c	X		
N					S	S	S	S	S	S	S	S	
N					x	v	x	x	vC	vC	vC	vC	
N					X	X	X	X	X	X	X	X	
N					X	X	s	s	sX	sX	sX	sX	
N					X	X	X	X	X	X	X	X	
N					xX	xX	xX	x	x				
N						x	x	x	x	x	v	v	
N							x	x	x	xX	xX	X	
N							x	x	x				
N							x	v	v	v	v	c	c
N							x	x	x	x	x	x	x
N							x	x	x	x	x	x	x
N							x	x	x	x		x	
N								X	V	V	V	X	
N									X	X	X	X	X
N									X	X	X	X	X
n									x	x	x	x	
n										x	x	x	
n											X	X	
n											X	X	
n											x	x	
n												x	
n												x	
n												x	
n												X	

Members of the Board:

x = member
c = chairman
v = vice chairman
s = secretary

n = not interviewed
N = interviewed

Members of the Medicines Policy Committee:

X = member
C = chairman
V = vice chairman
S = secretary

In order to further narrow down the number of interviewees I decided to concentrate only on those prospects who had been involved with the board or the committee after 1997; this was another natural dividing point, because 1997 was when PIF changed the rules for selecting board members and many of the old representatives had been replaced by a new generation of board members just before the change. I also decided not to contact those individuals who had only been on the board or committee for one or two years. Additionally, two interviewees declined an interview, saying that they had no “input to give to this study”. I tried to explain that no specific “input” was necessary, because the purpose was just to discuss PIF and its activities. Nevertheless, the two prospects declined to be interviewed.

All in all, I interviewed 20 individuals for this study (see Appendix 5 for the list of the interviews), including 19 of the 35 interview prospects, or 54% of the total. The final interviewees are marked with a capital N in Table 1. In addition I interviewed one person who had neither been on the board nor the committee, because one of the board members came to the interview accompanied by this person. This was the operative expert on pharmaceutical pricing and reimbursement issues in the board member’s firm, so it made sense to interview this additional individual as well. Ultimately, it proved that this extra interviewee actually had a good insight into the activities of PIF.

Of my 20 interviewees, 18 represented 14 different companies out of the altogether 70 PIF members, or 20% of the total, and the remaining two interviewees were representatives of PIF staff.

Interview process and content of interviews

I approached the interviews with the “active interviewing” mindset proposed by Holstein and Gubrium (1997; 1995). This approach fits well with moderate constructionism, the worldview chosen for this study. Interviewing has traditionally been seen as a search-and-discovery mission, concerned with maximizing the flow of valid and reliable information that resides inside the informant’s mind, minimizing any distortions of what the informant knows, and controlling the interview process to eliminate possible sources of bias, error, and misunderstanding. Active interviewing, instead, treats the interview as a social encounter in which knowledge is jointly constructed by the interviewer and the informant. The interview

is not regarded as “merely a neutral conduit or source of distortion, but is instead a site of, and occasion for, producing reportable knowledge itself” (Holstein and Gubrium 1997, 114). Both parties of the interview are active, and knowledge is constructed collaboratively. Meaning is not simply transported through the informant’s replies; it is actively and communicatively assembled in the interview encounter.

The average length of an interview was 1.5 hours. Three interviewees did not want their interviews to be recorded so as not to give direct quotes by which they might be recognized, although one of them allowed me to record the last 45 minutes of the interview. In other words, I was unable to convince these three interviewees that their comments, like those of all my interviewees, would be handled anonymously. I made notes during these three unrecorded sessions and wrote an extensive memo of the interviews as soon as it was over. All the 17 other interviews were recorded and transcribed.

To go back to the start of the process, I first approached the interviewee prospects with a letter (see Appendix 2) in which I introduced myself and the topic of the discussion: operations in PIF relating to price and reimbursement issues during 1992-2004. After sending the letter I contacted the prospects by phone to agree on the details of the interview. So, what the interviewees knew prior to the actual interview was only my background information, i.e. my name and position at the university and the fact that I was working on a doctoral dissertation, and the general area of discussion.

My original intention in the interviews was to focus primarily on the price and reimbursement aspects of PIF operations in order to limit the amount of empirical data. However, very quickly – in fact, already during the very first interview – I realized that to better understand the cooperation among PIF members I needed to collect data on other PIF operations as well, such as voluntary control of medicinal marketing. This became evident when I asked the interviewees about the cooperative and competitive aspects of the network operation; they spontaneously began to talk about other areas of operation besides just price and reimbursement aspects. Consequently, I discussed other issues relevant to cooperation within the PIF network with all interviewees.

When I was beginning the interviews I had only a very general interview guide with which to frame the interviews (see Table 2 and Appendix 3). It includes three specific topics of discussion (in this order): (1) the interviewee's background in the pharmaceutical industry and relation to PIF, (2) PIF activities related to prices and reimbursements from the viewpoint of cooperation, and (3) organizational values and values-driven management within the interviewee's firm and within PIF. I followed the same interview guide with all of the interviewees, but, as already noted, the second topic of discussion quickly grew more varied as interviews progressed and included discussions about, for instance, voluntary control of medicinal marketing.

Table 2. Interview themes and their purpose for data collection and data analysis.

Discussion topic (Interview theme)	Purpose of discussion topic for (1) data collection and (2) data analysis
1. Interviewee's background	(1) To warm up the discussion and lay grounds for the remainder of the discussion. (2) To provide background information of interviewees and their organization for subsequent analysis.
2. PIF activities related to price and reimbursement issues and other topics	(1) To lead interviewees to tell their own story of PIF's key activities during 1992-2004. (2) To analyze actual values and values-driven management practices in PIF and their connections to different subcases of PIF network cooperation.
3. Organizational values and values-driven management within PIF and its members	(1) To lead interviewees to describe the espoused values and values-driven management practices of PIF and its members. (2) To analyze the espoused values and values-driven management practices within PIF and their connections to different subcases of PIF network cooperation.

I used the first topic of discussion – the interviewee’s background – mainly to warm up the discussion. In most cases this laid a fertile background for the rest of the discussion, and the general discussion atmosphere was friendly and informal. There was only one case in which I felt that the interviewee did not relax at all during the interview, which made the discussion a little awkward.

The second topic of discussion – PIF activities relating to prices and reimbursements and other issues – took up approximately 60% of the length of an interview. The purpose was to lead interviewees to tell their story about PIF operations in their own words. What had taken place at PIF? Why had things happened the way they had? What kinds of roles did different actors have in PIF? Had there been any “hitches” in cooperation among PIF members? These and similar questions arose from prices and reimbursements, but soon led to other issues usually brought up by the interviewees, although I too sometimes suggested new topics.

For analysis purposes, the discussions on the second topic represent the most significant part of my empirical data. These data enabled me to figure out the *actual* organizational values and values-driven management practices within PIF and their connections to network cooperation. At this point the interviewees had no idea that my study focused on “values” and “values-driven management”, nor did I yet use these terms during the discussions on these themes.

At the beginning of the third topic of discussion – organizational values and values-driven management – I finally introduced terms like “values” and “values-driven management” into the discussion. I still did not reveal in what ways I was interested in these particular issues. These discussions took up 20-30% on average of the length of an interview. I would have liked to talk about these issues even longer, but the interviewees usually did not have as much to say about values or values-driven management as they had about the second interview topic.

The interviews on this third topic form the second most important part of my empirical data for analysis purposes. Based on these data it was possible to analyze the kinds of *espoused* values and values-driven management practices that were involved in PIF, and their potential effects on PIF operations and/or network cooperation.

Usage of archival data

Apart from the interview data, I also collected various archival records on PIF operations during 1992-2004. The archival data comprise PIF's internal documents, such as operative plans, annuals reports, and minutes of board and expert committee meetings. According to Welch (2000), archival data can be used in case studies in three different roles: (1) to add empirical depth to a study by generating new data and enabling verification of existing data from other sources, (2) to provide a longitudinal perspective and explain processes of change and evolution, and (3) to challenge existing theories and build new theoretical models. In other words, archival data can be used as a "way of complementing, strengthening and even challenging data gained from interviews" (Welch 2000, 202). This is also how I treated the archival data in the current study.

To be more specific, I used the archival data to gain an understanding of what took place in PIF during 1992-2004. This provided empirical depth and a longitudinal perspective to my study, although this is not a longitudinal study *per se*. Further, I used the archival data to challenge the empirical findings and theoretical conclusions of this study. These data also helped me to gain an understanding of whom to interview, gave me a fluency in the expert language of the interviewees, and, finally, enabled me to prepare myself for the interviews.

3.6.2 Analyzing the data

Operationalizing the key concepts

The definitions of the theoretical concepts of the current study were discussed in Chapter 2. Table 3 below summarizes the definitions of the key concepts used in data analysis.

Table 3. Summary of the theoretical definitions of the key concepts.

Concept	Theoretical definition
Organizational values	Beliefs held by organizational actors (individuals or groups of individuals) about desirable end states or modes of behavior, which serve as the basis for making choices.
Espoused vs. actual values	Espoused: Organizational values that organizational actors say they use. Actual: Organizational values that organizational actors use in practice (often unconsciously).
Value congruence and incongruence	Degree to which values are shared among actors (high congruence means that values are widely and strongly shared, and low congruence, i.e. value incongruence, means that values are not widely or strongly shared).
Values-driven management	Paradigm of strong cultures: The process of (1) selecting core values and (2) implementing an action plan to increase value congruence. Wider definition: The means by which management can increase awareness and understanding of organizational values within an organization to sensitize and to prepare organizational members for positive and negative effects that values might have on organization's functioning.
Espoused vs. actual values-driven management	Espoused: Management practices that organizational actors say they use. Actual: Management practices that organizational actors use (consciously or unconsciously).
Network cooperation	Voluntary and reciprocal acts by network members towards their common goals.
Successfulness of network cooperation	Extent to which the voluntary and reciprocal acts by network members contribute to the network achieving its common goals.

For data analysis, these theoretical concepts used in the study had to be operationalized. Table 4 explains how I operationalized the key concepts to interpret the interview data.

Table 4. Operationalization of the key concepts.

Concept	Operationalization for data analysis
Espoused organizational values	Values that interviewees say that PIF and its members have.
Actual organizational values	Values observed in activities and operations of PIF and its members as interpreted by the researcher based on interviewees' stories.
Espoused values-driven management	Management practices that interviewees say that PIF and its members use.
Actual values-driven management	Management practices observed in activities and operations of PIF and its members as interpreted by the researcher based on interviewees' stories.
Value congruence and incongruence	Observed similarity and dissimilarity of values among PIF members as interpreted by the researcher based on interviewees' stories.
Successfulness and unsuccessfulness of network cooperation	Observed successfulness and unsuccessfulness of network cooperation as interpreted by the researcher based on interviewees' stories.
Influence of value congruence on network cooperation	Observed association between value congruence and successfulness of network cooperation as interpreted by the researcher based on interviewees' stories.

In the last concept in Table 4, the term “influence” requires some further explanation, because it is one of the key words of my first research question in this study: “What is the *influence* of value congruency on the successfulness of network cooperation?” As shown in the table, the influence of values on network cooperation is defined here by the relationship between value congruence and network cooperation. I am primarily interested in whether value congruence or incongruence *is associated with* or *contributes to* the successfulness of

network cooperation. My practical aim is to determine the *degree* or *extent* to which value congruence contributes to the successfulness of network cooperation, either *negatively* or *positively*. Consequently, I do not intend to study any of the “mechanisms” by which value congruence might influence network cooperation.

Data analysis process

In data analysis I followed the classic steps of qualitative analysis as described by Miles and Huberman (1994, 9), namely: (1) interpreting and coding the data, (2) categorizing and thematizing, (3) finding patterns and making preliminary conclusions, (4) generalizing conclusions within the data, and (5) confronting the generalizations with pre-existing knowledge. I used a qualitative data analysis program (QSR NUD*IST Vivo) to facilitate the analysis, but the analysis process could well have been done without computer assistance. I will now briefly describe how the data analysis proceeded in practice.

I started the process by reading the interview transcripts in order to gain an overall impression of the nature and content of the data – even though I was, of course, already quite well familiar with the data, having done the interviews and transcriptions myself.

Next, I began to interpret and code the data, starting by examining the espoused values and values-driven management practices of PIF and its members. I searched for, interpreted, and coded every instance in which interviewees talked about the espoused values of their own firms, other member firms, or PIF. I also looked for espoused values on their Internet homepages. After the coding I then thematized the codes for espoused values and values-driven management practices under a number of subcategories. Section 4.1 presents the findings of this phase of analysis.

After having coded and categorized the espoused values and values-driven management practices, I continued by looking for, interpreting, and coding bits of data related to network cooperation. I was able to detect several cases of both successful and unsuccessful network cooperation. When the whole data had been coded, I thematized the codes into four primary subcases of cooperation, since most of the data accumulated into these categories.

After these four primary subcases of network cooperation had been identified, coded, and categorized, I studied the actual, as opposed to espoused, values that surfaced in each of them. I further determined whether these values were congruent or incongruent among PIF members, and if and how the congruent or incongruent values were connected to the successfulness or unsuccessfulness of network cooperation.

Having done the above analyses, I had results on four primary subcases of network cooperation, each of which included two to four secondary subcases, and on how cooperation in each of these was influenced by values (see Sections 4.2, 4.3, 4.4, and 4.5).

At this stage I sought for a way to present the results of the analysis in a condensed manner so as to detect patterns in them. I crafted the following generic table (see Table 5) to assess the influence of values on cooperation in each case.

Table 5. Generic tool for analyzing the relationship between cooperation and values.

		Values			
		Value 1	Value 2	Value 3	Value 4
Cooperation		+	-	+	-
Cooperative case 1	+	+	+	(-)	(-)
Cooperative case 2	-	(+)	(+)	-	-

The ‘+’ and ‘-’ signs in Table 5 stand for three different things depending on their location in the table. The sign immediately below each value (value 1, value 2, etc.) tells whether the value is congruent (+) or incongruent (-) within the network. The sign to the immediate right to each of the cooperative cases (Cooperative case 1, Cooperative case 2) indicates whether cooperation has been successful (+) or unsuccessful (-). The signs in the remaining cells show whether the respective value has had a positive (+) or a negative (-) influence on that particular cooperative case. Finally, a sign in parenthesis means that the positive or negative influence of that value is weaker than the positive or negative influence of another value.

The interpretation of Table 5 goes as follows: (1) values 1 and 3 are congruent and values 2 and 4 are incongruent within the network, (2) cooperative case 1 represents a successful and cooperative case 2 an unsuccessful case of network cooperation, (3) values 1 and 2 have had a positive and values 3 and 4 a negative influence on both of cases of cooperation, (4) cooperative case 1 is successful because values 1 and 2 have had a stronger influence on the successfulness of cooperation than values 3 and 4, and (5) cooperative case 2 is unsuccessful because values 3 and 4 have had a stronger influence on the successfulness of cooperation.

At this point of research I had no specific expectations regarding the results. In other words, I thought *any* combination of different signs for all values and for all cases of cooperation was possible.

Finally, I summarized the empirical findings (see Section 4.6) and assessed whether they were generalizable within the accumulated data – and, as far as I could conclude, they were. The generalization of the results in light of previous knowledge is addressed in Sections 3.4 and 5.4.

Presenting the empirical findings and drawing of conclusions

My empirical findings and conclusions are presented in Chapter 4. I have tried to report the findings and the process of drawing conclusions as transparently as possible. To do this I have included quotations from the interviews connecting my findings and conclusions to the actual empirical data. Also, I have attempted to condense my conclusions as far as possible to allow the original quotes to provide a richer illustration of the reasoning behind the findings and conclusions of this study.

The interview quotations were selected based on their representativeness of the whole data. My conclusions, therefore, derive from such instances in the data that are not contradicted by other data – or, in cases where contradictory data are available, I have tried to show both sides of the coin as transparently as possible.

Naturally, the original quotations were in Finnish and were translated into English by me. I did not use an outside translator, because I wanted to ensure that the translations conveyed

the original meaning of the quotations as I understood them in the interview situation. After all, I am more familiar with the interview context than an outside translator would have been. The direct quotes are followed by the interviewee's code (P1, P2, etc.), and the interviewer's questions and remarks are typed in bold. For the purpose of transparency, a few typical examples of the original transcripts and their translations are annexed in Appendix 4.

4 EMPIRICAL ANALYSIS: VALUES AND COOPERATION IN PHARMA INDUSTRY FINLAND

This chapter presents the results of the empirical analysis. I start by reporting my findings about espoused values and espoused values-driven management in PIF and its member firms (Section 4.1). I then move on to analyze cooperation within the network by focusing on four primary subcases of successful and/or unsuccessful cooperation, namely: (1) cooperation on price, reimbursement and sickness insurance issues (Section 4.2), (2) cooperation on voluntary control of marketing of medicinal products (Section 4.3), (3) cooperation between research-based and generic pharmaceutical companies (Section 4.4), and (4) cooperation between Orion and foreign research-based companies (Section 4.5). Finally, the empirical findings are summarized in Section 4.6.

4.1 Espoused values and values-driven management in PIF

This section contains an analysis of my discussions I had with the interviewees on the espoused values and values-driven management of PIF and its members, the third topic in the interview guide.

An overall observation of the interviews was that most of the interviewees were quite literate when it came to discussing espoused values and values-driven management. This was what I had hoped for prior to starting data collection and analysis. Most interviewees were familiar with the basics of what values-driven management is and how it functions. Additionally, at least half of my 20 interviewees reported that they had been actively involved in developing espoused values for their firm and/or responsible for promoting their corporate espoused values. Only one interviewee clearly found it difficult to relate to and discuss the topic.

The analysis is organized into three sections. Section 4.1.1 deals with espoused value congruence and incongruence within PIF, Section 4.1.2 with the espoused values-driven management practices of PIF and its members, and Section 4.1.3 with the espoused values of PIF and its members.

4.1.1 Congruence and incongruence of espoused values in PIF

Practically all of the interviewees said they did *not* specifically know what espoused values other PIF members had. Yet they claimed to have a good idea of what these values were from interpreting the activities of the others. Interviewees agreed that the values of PIF members at the top level⁶ were highly congruent:

Everyone calls [values] by slightly different names. The basic value basis, however, is very similar in all firms in the medical industry. (P17)

If you take a look at the web pages of, say, 15 pharmaceutical companies... like headquarters-style web pages... and start to look at their values and stuff, you know, you realize that whatever names you call them [values], they are all the same. (P11)

⁶ Here, and elsewhere in the empirical analysis, I use the term “top level” to refer to PIF board members and/or the top management of the member firms. Further, I will compare the top level to the level of daily practice to show that there is often, although not always, a difference between what board members’ think “ought to be” and what the actual day-to-day practice truly “is”.

...The values of these member firms, how alike or different are they? P18: Well, they are pretty much alike, like... They are... You use slightly different words, but if you look at the firms' values in general, you know, they are really quite similar, so if you unfold them, then it is like... What these key words are, what they [the firms] have picked, there might be some differences there. **T: But when you interpret them [values], they are practically similar?** P18: Very similar.

They [values] don't differ from each other... Like I've even looked at the values of these competitors, some of them have a longer list [of values]... they have taken in all [values] just in case [laughter]... and some have a shorter list, they have tried to [shorten it]... But they [the values] are not different. (P10)

If you compared your mental images of these other member firms, or the association [PIF], or the shared values of the industry, then... Are there differences in these values, or similarities, and how much? P14: Well, overall, probably more similarities than there are differences. (P14)

Value congruence at the top level is not surprising, since the values of PIF member firms are inbuilt into the pharmaceutical sector as a whole:

The values of pharmaceutical companies are very typical. There's always health, and people's wellbeing, and life, because there can't be anything else. These values of this industry are inbuilt. (P17)

Because somehow I see that the values of pharmaceutical companies must in a way always be the same, whatever the companies call them, or otherwise... Because a company cannot have many different roles in society, I mean as pharmaceutical companies. So they cannot... They fit into a narrow... So if you try to differentiate yourself in one way or another... like how we operate, by which values we operate... Those firms won't do well whose values, you know, are in clear conflict [with the values of the industry]... (P8)

However, interviewees admitted seeing some differences in *how* values were being applied in daily practice; in other words, although PIF members held similar values at the top level, some differences were visible at the level of day-to-day practice:

But then, if you look at... There are in fact a lot of similarities, but, after all, at the operative and practical level, you know... how the values and practices work in reality... I believe that there are huge differences [at this level] even if firms did have similar values. --- And there's a difference between companies in how they, you

know... How [the values] have been implemented and how they are part of everyday work, of what goes on inside the firms. (P13)

...The words were the same, but the “do / don’t do” behind the words, that was a bit different. **T: In what way?** P7: Well, it means for instance that, like... Americans emphasize this a lot, you know, this quarterly economy, also in the pharmaceutical industry, so it is like very, very profit, profit, profit oriented, much like the... Every activity has to correlate with the result. And if we take Swedish values, it has the effect that the result is equally important, but you discuss, discuss, discuss, and discuss. And... So the behavior behind, you know, the same value terms is different. (P7)

T: Well, are there, then, some kind of differences of emphasis, so that someone perhaps stresses profitability more and someone then perhaps stresses ethicality more, or something? P18: I believe that in terms of values as such, [the answer is] no, but how you apply them [the values] in practice, there lies the difference in emphasis. **T: How?** P18: Well, especially in those practical decisions, there it might be that profitability for someone is more important than ethicality, cooperation for someone is more important than innovativeness, so... So, you know, in practical situations you make your decisions, and the... the [actual] culture that exists in the firm, it is many times more powerful than your [espoused] values. So the culture... the corporate culture that has developed over the years, the way you utilize your values, that is what differentiates these [firms from one another]. (P18)

The goal is one and the same [for everyone], that your company succeeds, stock prices go up, and you’re able to give dividend to these shareholders, but the practice, the way your company puts decisions into practice, is a bit different. (P8)

Nearly all interviewees noted that differences between PIF members in applying the espoused values into daily practices were related to ethicality and/or to adhering to PIF’s voluntary control of marketing of medicinal products – which, again, comes back to ethical behavior. Hence, although PIF members held the same values, including ethicality, at the top level, in practice member firms could be seen to approach ethicality differently when it came to following voluntary control of marketing of medicinal products:

...Just these marketing regulations. That there are those [firms] that constantly live on the edge, and occasionally visit the other side of the border, trusting they won’t get caught. Which is, I think... It reflects the values of the firm quite well... (P14)

...If this firm had honesty as its value, and also really lived by this value, we wouldn't see them, you know, bumping into the fences of marketing regulations. (P12)

The following two quotations nicely sum up how the discussions on value congruence with the interviewees frequently went. First the interviewee says that espoused values of PIF members are congruent at the top level. Next he or she admits that despite this top-level congruence there are differences in how different member companies apply these values in practice. And finally, the interviewee specifies that the differences in daily practice usually relate to the members' approach on ethicality, especially in following PIF's voluntary control of marketing of medicinal products:

...Are they [the values of PIF members] similar or different? P16: Well... I think there are a lot of similarities, but also differences. The differences become apparent in their [some firms'] ways of operating, so that their way of operating is so glaring in some way, so that [the difference] is apparent in their actions so that their values must be somewhat different from ours. **T: What are the differences that usually become apparent?** P16: Aggressiveness. Ways of operating. The fact that they operate so aggressively that their marketing activities, and their activities in general, are excessive. (P16)

So, what kinds of differences, then, can you see between the values of these firms [PIF members]? P17: There are no huge differences. **T: Are there differences of emphasis?** P17: Well, some operate more ethically than others. **T: In what kind of... Where is this most evident?** P17: In marketing. (P17)

Thus, PIF members seemed to hold highly congruent espoused values at the top level. There were differences, however, in the way member firms applied the espoused values in their daily practice, especially with regard to ethicality and PIF's voluntary control of marketing of medicinal products.⁷

⁷ This could actually be interpreted so that *espoused* values were congruent and *actual* values were incongruent, e.g. in terms of ethicality. However, the analysis here only concerns *espoused* values and values-driven management within PIF and its members, and so I will not go into any details of actual values at this point. Espoused and actual values are compared and discussed later in Section 4.6.1.

4.1.2 *Espoused values-driven management in PIF*

The conclusion in the previous section (Section 4.1.1) was that the espoused values of PIF members were highly congruent at the top level, but that some differences could be observed in the way values were applied to daily practice. This section focuses on if and how values-driven management is utilized by PIF and its member firms. I start the analysis at the level of individual firms and then go on to discuss the network level.

The majority of interviewees said their company exercised values-driven management and took it seriously. These member firms had set core values for themselves and implemented various management practices to encourage and monitor the use of the core values:

It [values-driven management] is, in fact, very important [for our company] in that values are not just some “soft thing”, but we’ve implemented them into practice in a way that... That we have incorporated them [the values] into our goal and development discussions, into the level of practice, in a way that... That we have operating principles that are based on our values... --- And following these operating principles is one part of our goal and development discussions, and part of our incentive bonus scheme. (P13)

We have this [value]-thinking in our company. --- We work on [our values] very regularly. We have this [value] survey, where we ask our employees, how... how they have experienced the past two years, and have we operated according to our values. So we do this kind of survey, and if we find any defects, we employ a policy to remove these defects, and then follow up to find out if we’ve succeeded. And then we also have this training for our employees every now and then... every second year, every third year... where we have these business cases which the employees read through, and we ask them, and also ourselves, what they would do in each case. And there are different kinds of options to choose from. And then, in the end, you get the results that tell you whether or not you have chosen in line with our values. This is a very good thing for us. (P16)

Some companies had applied intentional values-driven management for decades – though it might not have been called “values-driven management” at the time. For most PIF members, however, *intentional* values-driven management was a more recent activity, introduced perhaps in the past three or four years, and they were still working to promote their espoused values throughout their organizations:

...We have --- worked on our values, you know, internalized and implemented them, for maybe about three years. And I think that they [the values] are starting to... Today everyone knows [our values], and can name them. Slowly we've come to a situation where, in our work we don't constantly have to remind ourselves of how a certain value should be utilized in a certain situation, but they [the values] are starting to become routine... So that every time you grab a pen or a phone, they [the values] come naturally. --- This has definitely had some impact on our internal culture, you know. (P12)

Well, I could say that we started the [value] discussion here sometime --- in 1997 --- [And] when we took them [the values] into our goal and development discussions, it must have happened sometime during, about, 1999-2000... **T: So it's a fairly new thing?** P13: Reasonably new anyway, so it was... In fact, we did have operating principles even earlier, but they weren't connected to values, and these two things go hand in hand... So it [values-driven management] is a thing that's only about three, four years old with us. (P13)

Although values-driven management was intentionally used in most – although not all – of the companies represented in the interviews, many interviewees were critical of the whole idea of values-driven management, deeming it as yet another management fad of the “era of corporate cultures” or simply as just more “froth”:

...But this values stuff, it's starting to feel like... like it's starting to... It is starting to feel like time has bypassed it, so that... Everyone has them [values]... Whether there are four or nine of them, they are almost like, you know, very general, so that... I feel that this value stuff is like some kind of product that belongs to that era of corporate cultures. (P11)

...And values-driven management as such, and I mean values-driven management for real, I think that it's more about words than deeds. It's fashionable --- that values have been defined, but often it stays there. So that you have defined your values, or that you have been given values from your headquarters, so that these are our values. And then you can bring in a values trainer, which is fashionable, and the values trainer will tell you about values and the significance of values. And then it stays there. But [real] values-driven management instead, I don't think that it [exists]... I would be surprised if you could say that it happens for real. --- I don't believe that we have much skills and capabilities to utilize values-driven management. (P7)

We've had a lot of discussion about values [in our company], and... They [values] are often such that you can find a firm's values on the Internet, but if you go and ask a regular employee about the firm's values, then... Yeah, right... So they [values] are like froth... (P4)

It is worth asking, therefore, whether companies that claim to practice values-driven management *truly* do so. In other words, is values-driven management in these companies just idle talk or do they really take their values seriously in their day-to-day operations. It is very easy to say “yes, we use values-driven management”, even give examples of its use, but actual reality may turn out to be something quite different:

Go and ask anyone if their firm is managed by values and how important values are for them. Everyone will say that they are important and that it [values-driven management] is a wonderful thing. But when you go and see what goes on in the firm in reality... Well... It's a completely different thing. --- [There are] two levels: One, are there values or not? Everyone has them. Two, are values being systematically used to manage the firm? Are values being managed in a certain direction? This is the other level. The first level, of course, is everywhere. --- But the second level, I think, is very rare. That [values-driven management] would be actively in use. (P7)

However, nearly all interviewees agreed that it was impossible for modern firms, not only firms in the pharmaceutical sector but in all business sectors, to exist without espoused values:

...My personal opinion is that there must be values... That you have to live by values... Because without values... I think that a firm is not modern and viable to any degree [without values], so you have to have values. (P5)

...I could almost say that... [the discussion of values] is not [only] desirable, it's absolutely necessary. That is absolutely... Now that they [values] have been brought up for discussion, and now that we talk a lot, you know, by means of values... --- If a firm is not prepared to take part in the discussion, you know, from the viewpoint of values, I think that the conditions for survival of such a firm are very weak these days. So it [the discussion of values] is not [just] desirable, it's absolutely necessary for all firms, and also for all business sectors. (P7)

The existence of clearly stated values helps firms, for instance, to make difficult decisions and resolve situations of crisis:

Let's say that especially in situations of conflict and contradiction, values are a big help, so that conflicts, internal conflicts, are much easier to solve, because you start to look at them [the conflicts] through such things [values] which you've defined as being shared, as being important, which are not “facts” so much but “real stuff” that

nobody can really call into question. --- The worse the conflict, the more valuable are your values. (P9)

In principle you always have to mirror your decisions against your values. And very often this helps... Like if you have a situation where you're trying to decide what to do, you can take a look at your values and see which of the decisions are possible according to your values. (P18)

To sum up, interviewees reported that most of the individual PIF member firms did utilize values-driven management, at least to some extent; however, we are entitled to ask if this is only talk; reality might be something else.

The above summarizes the discussion about values-driven management at the level of firms, but how about the network level? Did PIF apply values-driven management at the level of the network? Some interviewees seemed to think it would be a good thing for PIF to define its core values. They felt this would improve the image of the whole industry:

...Do you think it would be wise for PIF to somehow start to manage the values of the pharmaceutical industry? --- Is this something that PIF should invest in, or leave it to individual firms? P16: First of all... I think it would be a good thing, overall, to start to improve the, you know, the profile of the pharmaceutical industry. In one way or another. And this is also related to the idea of shared values. I think that this would be a good thing. That, you know... that we would try to improve our profile also from this viewpoint. (P16)

In fact, one or two years prior to the interviews of this study, PIF had undergone an evaluation process to determine if and how values-driven management might be used to improve cooperation among PIF members. During the process PIF had even drafted a few potential values that could be defined as the shared espoused values of the network. In the course of the process, however, the board of PIF came to the conclusion that PIF could not set network-level (or industry-level) values, because it might be confusing to have company-level values, on the one hand, and network-level values, on the other hand. At least it would raise difficult questions: Which values should you follow if company-level values were incongruent with network-level values? Can an employee follow many different sets of values? How could the network-level values be implemented at the company level if they

differed from each other? PIF members together agreed that PIF could not set network-level values because it had to operate according to its members' values, not vice versa:

An industry interest group [such as PIF] always operates according to the values of its most powerful members and that's that. There cannot, generally speaking, be other values. (P7)

In my opinion PIF can absolutely not have values of its own. It has to follow its members' values. (P17)

Hence, PIF decided to drop the idea of utilizing values-driven management at the network level. One interviewee, in fact, suggested that it might be more to the point to speak of industry *regulations* instead of industry values. Regulations are much like values but are more closely linked to actual reality:

I find it a bit confusing... When you have, you know, company values, and then the values of the association [PIF], and then you'd have industry values... Which of these would you follow? So... I feel these should at least be named differently, so that we would speak of, say, the rules-of-the-game of the industry or something like that, so that... so that you'd create different starting grounds for them. Because if you name them industry values, you will again end up with clichés that don't really mean anything. Because then you'd have to open them up, and you'd need to spend some time on them, so that every firm and every employee of the firm would buy these industry values. Because if you put them on a piece of paper and tell them "here they are"... Then they won't have any significance, because they wouldn't have been internalized. Which would, in my opinion, make it easier to talk about the industry's rules-of-the-game, and then open up these rules-of-the-game to define what they mean in concrete terms. This is much like what we're doing with the new code of marketing, where we have these exemplary questions and answers. They speak out the rules-of-the-game, which are values in a way, telling us how to run this business. So... So, in my opinion, this is much more pragmatic and more result-oriented than if we would have an official process where we would define the values of the industry. (P18)

To conclude, PIF decided *not* to apply values-driven management at the network level. Having a shared set of industry values might help to improve the image of the industry, but the existence of both industry-level and company-level values might be too confusing both for the network members and for the general public.

4.1.3 Espoused values in PIF

In this section I will present an analysis of PIF members' espoused values based on the interviews. The interviewees described the values of their companies differently – some of them were more and some less wordy. The list of different espoused values seemed very long at first, but after a more detailed analysis I decided to group the values into four different groups: (1) values relating to profit and performance orientation, (2) values relating to ethicality, (3) values relating to social responsibility, and (4) the level of aggressiveness of companies to apply their values in daily practice. The first three value groups represent terminal values. However, the last one, aggressiveness of applying values in daily practice, is clearly an instrumental value; hence, it is not important for the companies *per se*, but it is important as it determines how aggressively the companies put their other values into action.

In terms of defining the four groups of values, I will elaborate on the group *profit and performance orientation* in Section 4.1.3.1. As such, the group name is informative of its content, suggesting that firms valuing profit and performance orientation aim at making a profit and/or performing well. The next two groups of values, *ethicality* and *social responsibility*, are closely related and sometimes overlapping concepts and therefore require some further explanation.

According to Carroll's (1991; 1999) classic definition, corporate social responsibility (CSR) – social responsibility in short – comprises economic, legal, ethical, and philanthropic social responsibilities. The Commission of the European Union offers another, a bit more abstract, definition of CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis” (EC 2001, 6). These definitions are useful in that they describe the landscape, or the key ingredients, of social responsibility. The definitions suggest that CSR includes not only legal compliance but also voluntary action beyond legal compliance, like investments into environmental causes and social relations with various stakeholders.

To make a distinction between *ethicality* and *social responsibility*, I refer to the above definitions and define ethicality as a firm's tendency to follow rules and regulations – i.e. legal compliance. Social responsibility, in turn, here refers to the other elements of CSR –

i.e., going beyond legal compliance. This distinction is quite useful in the current study, as it is detectable in the interview data. Interviewees spoke about ethicality mostly in terms of legal compliance, and about social responsibility mostly in terms of the other elements of CSR (although I admit it was sometimes hard to draw this distinction). It is worth noting that profit-making and performance orientation are linked to CSR as well, so that in addition to fulfilling its environmental and social responsibilities, a CSR firm also aims at economic responsibility.

The last value group, *aggressiveness*, is not a theory-driven concept but one that surfaced during the interview discussions when interviewees were describing their own and other PIF members' values. Section 4.1.3.4 focuses on this value group.

The above groups of values represent a clear majority of the espoused values discussed by the interviewees. Some other values were also mentioned that I did not categorize into any of the groups presented above. They were mostly related to “customer orientation”, “innovativeness”, and “a respect for people/employees”. I decided to drop these values from the final analysis because my preliminary analysis indicated that they were not associated with the successfulness or unsuccessfulness of cooperation among PIF members, at least not in light of the interview data. In other words, they had no real relevance to answering the research questions of this study⁸.

The four value groups described above – profit and performance orientation, ethicality, social responsibility, and aggressiveness – represent values which according to my analysis were somehow connected to the successfulness of network cooperation among PIF members. I will next deal with these groups of espoused values more closely.

⁸ In fact, one could argue here that a lack of connection between these values and the successfulness of network cooperation suggests that at least some values do *not* affect network cooperation, or that values in general do not *always* influence network cooperation.

4.1.3.1 Profit and performance orientation

The most frequently mentioned espoused value among PIF members was *profit-making*: “being profitable”, “good financial performance”, etc. The basic content of this value is that in order to survive, all firms in all business sectors, not just in the pharmaceutical sector, have to make a profit:

Each and every firm has to make a profit. This is, after all, a condition for your existence. (P16)

This is one constant hell of a competition. You have to cope with both disappointments and with victories. And to turn out as much profit as possible. That is, after all, the starting premise. (P20)

...Financial performance should, overall, be the guiding principle of our organization, so that we remember that we have to be efficient in our operations all the way through to the financial result. --- We are here to make a top performance, and... we need to follow up and measure it in all of our activities. (P9)

A thriving firm benefits not only its shareholders, but also its employees, its customers, and society at large. Not making a profit would, therefore, in itself be unethical:

So I often try to stress to our people that... to stress that we must also have the courage to, you know, stand up and say that this is... this is business. --- In business we always have one goal that we're after, and that is to maintain the economic profitability of the business, and this ultimately leads to, you know... it benefits the doctors and the patients, and everyone, if the pharmaceutical industry stays healthy and is able to develop new products. (P12)

So, it is, in my opinion, the social responsibility of the management that companies pursue profitability. That's the responsibility. Ultimately, that's the responsibility. (P14)

...The duty of a pharmaceutical company is to make a profit so that it can exist. And if it didn't make a profit, this would, as such, be totally unethical. (P17)

The value of profit-making had high congruence among PIF members. Still, there were small variations in its content and importance to the members. For instance, shareholder value is

directly linked to profitability, but some PIF members rated its importance differently than others. Shareholder value, for some, was the most important corporate value, whereas for others it only came second or third, or even later:

The pressure, it's from the direction of the owners. Like, if I think of our board of directors --- that there are these capital investors. --- These guys don't know this business at all. Not a bit. So then there are... we have a few experts who know the business, but it's really number-based. It's totally number-based, the control that the board exerts on us. Which, of course, is reflected on my own activities, so that... I've got to get things in order. (P14)

It is the owners' interest that is most important. (P15)

So the first thing we look after is our responsibility to all those who use our medicines. Not only patients, the patients' parents, doctors, nurses, but also everyone else. The second thing that we look after is our responsibility to, well, to our employees. --- The third thing that we have there is our responsibility to society. --- *And only fourth comes our responsibility to the shareholders.* Which is untypical in an American firm, where this is always number one. (P16; emphasis added)

Still, the value of profit-making had high priority among all of PIF's members. But all of them also agreed that being profitable does not mean being profitable *at any cost*:

We very much stressed that it's not only what but it's also how. So that... So it's also important how you make your profit. And I think there's a big difference which of the two comes first, so that it's not [about making a profit] "by any means", but doing it, like, according to these regulations. (P13)

I do, you know, get a kick out of how good our... how much profit we make. --- But then again... the values come into play, that I don't want to make that profit by whatever means possible. (P12)

...Profit-oriented values come only when everything else is in order. Only after this can you start to make a profit and compete. But you can't start competing, making a profit, if these things aren't in order, because this business is so regulated, that you won't even make to the start-line unless these things [ethicality issues] are more or less in order. (P5)

Of course, you launch your products on the market, and then market them by the rules as far as possible to maximize your sales, but only according to certain principles, which are the rules of society. (P8)

Well yes, we do try to operate both in Finland and also outside Finnish borders so that... that the goods we sell... that they'd be used in a correct and appropriate way as far as possible based on the current knowledge of medical research. --- This defines the limits of our potential field of doing business. And that's where we ought to be as efficient as possible. And from there then maximize our financial result to the extent possible. (P9)

The value of profit-making, thus, does not contradict other values like ethicality and social responsibility. Rather, these values actually complement the value of profit-making by defining how companies can pursue profitability:

So... I see no, you know, no contradiction between [our other] values and making a [good] financial result. --- ...It is not just what but also how. (P13)

A few decades ago the Finnish pharmaceutical industry was probably not as profit-oriented as today. Yet, the recently toughened legislative and competitive environment in the pharmaceutical sector has made companies realize that they have to be profitable in order to survive:

And making a [positive] financial result, then... Over the years, probably, this has... How should I put it...? It has become more and more a must. You have to make a profit. At the current... or in the current working environment, in which the demands ... have changed so radically over the last decades. --- So that the whole operating environment, the challenges that it poses, and its demands, have increased so much that, you know, it has substantially changed your behavior and consequently your profit-making activities also. And yes, today it's an overriding... or rather, a unifying thing among us all. I can't... I couldn't even imagine that there would still be a firm, a pharmaceutical company, in the market for whom this [making a profit] wouldn't be a must. (P16)

...So typically our margins have been quite good... our sales margins have been reasonably good. And good margins have given a lot of operating possibilities, you know, to develop your business, and you don't have to worry so much about your costs. But the environment has now changed so much that... --- Today we're all no doubt more [profit-oriented] than ten years ago, because the environment has changed so much. (P14)

Profit orientation in the pharmaceutical sector may also have increased because business executives today are, as some interviewees suggested, more self-centered, profit-oriented, shortsighted, and less socially concerned than before:

Earlier we typically had longer employment contracts in the pharmaceutical sector. Today the employment contracts are much... I think they're shorter. And then those who haven't been in the business for ten years maybe don't get it. So that there will be more of those short-term employees, and career sharks, I mean those "Me, Inc." people. These people do not see this. Which leads to... Shorter employment contracts and short-term goals [that] break the bonds between the pharmaceutical industry and society. Because society's goals are more long-term than the short-term goals of firms. --- The CEOs of [Finnish] subsidiaries, they are... they no longer work for twenty years in one and the same company, but they work for shorter periods of time, which inevitably creates a certain tension between society and these firms, if the firms don't have employees who know the right manners. (P8)

To summarize, profit-making proved to be a congruent value among PIF member firms. The purpose of every PIF member is to pursue profits; that is their role in society. All PIF members also agreed that ethical and moral guidelines have to be followed in the quest for profit, that it matters *how* you make your profit.

4.1.3.2 *Ethicality*

Interviewees consistently mentioned *ethicality* (including e.g. honesty) as one of the most important values for pharmaceutical companies:

T: So, which would be, let's say, the top three values that everyone has? --- P14: We always talk about this ethicality, maybe it is the common denominator for the operations of all of us, and in my opinion it connects us... the ethicality of the pharmaceutical business. There may be some spark-overs sometimes, but usually it's quite innocent, after all. We are ethical. (P14)

Ethicality was often defined in relation to other values. According to interviewees, ethical behavior is what defines the limits of profit-making: ethical companies do not strive for profits irregardless of good moral behavior:

Our company tries to highlight how we operate, and that our operations are ethical, and... Of course, you launch your products on the market, and then market them by the rules as far as possible to maximize your sales, but only according to certain principles, which are the rules of society. (P8)

So, it is, in my opinion, the social responsibility of the management that companies pursue profitability. That's the responsibility. Ultimately, that's the responsibility. Then come these... --- The means by which you become profitable, so that they are ethical... and that your overall behavior is socially acceptable. (P14)

One way to define ethicality, then, is to see it as “doing things right” (i.e. legal compliance), but it can also be defined from the perspective of “doing good things” (i.e. going beyond legal compliance), thus linking ethicality closely with social responsibility:

... We can all see that the pharmaceutical industry has provided such great benefits for humankind, that there are, you know... We pretty much have this jointly held, positive, ethical value... viewpoint. --- I see this as an ethically good field of business. (P16)

Several interviewees also mentioned that profit-making is ethical in itself, because a business that makes a profit benefits society, e.g. by providing employment and paying taxes:

... The duty of a pharmaceutical company is to make a profit so that it can exist. And if it didn't make a profit, this would, as such, be totally unethical. (P17)

Thus, at the top level, ethicality was a highly congruent value among PIF member firms. However, at the practical level – most evidently in daily marketing practices – PIF members seemed to differ in their application of ethical principles:

T: Well, are there, then, some kind of differences of emphasis, so that someone perhaps stresses profitability more and someone then perhaps stresses ethicality more, or something? P18: I believe that in terms of values as such, [the answer is] no, but how you apply them [the values] in practice, there lies the difference in emphasis. **T: How?** P18: Well, especially in those practical decisions, there it might be that profitability for someone is more important than ethicality, cooperation for someone is more important than innovativeness, so... So, you know, in practical situations you make your decisions, and the... the [actual] culture that exists in the firm, it is many times more powerful than your [espoused] values. So the culture... the corporate culture that has developed over the years, the way you utilize your values, that is what differentiates these [firms from one another]. (P18)

So, what kinds of differences, then, can you see between the values of these firms [PIF members]? P17: There are no huge differences. **T: Are there differences of emphasis?** P17: Well, some operate more ethically than others. **T: In what kind of... Where is this most evident?** P17: In marketing. (P17)

To conclude, ethicality was a highly congruent espoused value at the top level among PIF members. However, there were differences in how the members applied ethicality in their daily activities, especially with regard to their marketing practices. These differences are dealt with in more detail in Section 4.3, which discusses network cooperation on voluntary control of marketing of medicines.

4.1.3.3 Social responsibility

Interviewees mentioned a number of values that fall into the category of social responsibility. For instance, the pharmaceutical industry often accentuates that “the patient comes first” or that “we are in the business of making peoples’ lives better”, which are social responsibility values:

...Does the [pharmaceutical] industry have, you know, its own values, or should the industry define its own values...? P20: Yeah... We’ve defined them all right... --- ...that [we work] for the patients’ benefit. The first value was the patient.

...And then, of course, the pharmaceutical industry also holds the idea, that... that this is a field where this kind of a... Ultimately, we work for the benefit of peoples’ health, so we must... our values must also reflect these things... So we should always remember that we’re ultimately dealing with the patient, the patient’s needs, and even the patient’s life. (P9)

Still, it is good to question whether patients really came first, or whether profitability still might come before them:

When you look at the mission statements of pharmaceutical companies, their missions are that “we work for the benefit of the patient”, “we [work for a better] life”, you know... “We are pro life.” “We improve the quality of life.” And... These are the... These are the message... This is the message that we’re trying to give. And then we make a 30 percent profit. Which is now going down to 20 percent, to 15 percent, and we’re crying that now the 30 percent is only 20 percent. --- So, you know, why does the pharmaceutical industry have a bad reputation in a sense ...? And why this reputation of corruption, you know, and this reputation of money-orientation and greediness...? Well, that’s just because the messages contradict with the facts that you can see in the daily operations. (P7)

Much the same way we can ask whether the charity practiced by the industry – donating medicines free of charge to the World Health Organization or organizing health education campaigns – are purely signs of ethicality or corporate social responsibility, or whether there are ulterior motives or values, such as profit-making, behind these charity activities:

When your reputation is so bad, then you try to improve it by donating free medicines to WHO, or giving some AIDS medicines to developing countries... You give these away so that you can say that you're also doing something good. --- But you do it just and only to reach your goals, meaning that if you improve your reputation you may, you know, perhaps keep your prices high in western countries when you give something for less elsewhere... We're able to influence politicians better when we say that "hey, we just gave Africa so and so much medicine, we give so and so much money to research, look at how well Finnish patients are participating in studies and therefore getting free treatments"... (P7)

Let's take marketing to patients, for example, and let's take prescriptions... the right to talk about prescription medicines to patients, which is possible in the USA. This USA model is constantly being imported into Europe [by pharmaceutical companies]... --- And this is done by trying to influence the local agency of medicines. You go there and negotiate, saying that this is a good campaign, this promotes patients' awareness and knowledge of their diseases, so they'd go to a doctor before it's too late... --- If the pharmaceutical company in question didn't have a product to cure the disease, they would surely not do such unselfish charity. So when... Like... You could implicitly say that the only goal is to increase the sales of the product. Period. (P7)

It is good to remember at this point that everything a pharmaceutical or any other for-profit company does is quite naturally related to making a profit. Nevertheless, the pharmaceutical industry is often faced with the difficult question of whether it is justified to "make a profit out of people's sicknesses" (P12). After all, pharmaceutical companies make products that their customers are often compelled to buy to stay alive, and there is a profound ethical dilemma in justifying a "correct" price for such products. What kind of "correct" price would both give a "fair" rate of return to the producers and be "fair" for the patients who will not survive without the product? The purpose here is not to solve this dilemma, and so I will not discuss this issue in more detail. However, from the viewpoint of espoused values it is interesting to look at how PIF members justified the prices of their products.

The following kind of reasoning was used by interviewees to justify their product prices: (1) Companies in all business sectors have to make a profit in order to survive, (2) if a pharmaceutical company did not make a profit, it could not keep innovating new medicines that would benefit society at large, and (3) so it is ethical, even the duty of pharmaceutical companies, to make a profit. The following quotations exemplify this discussion:

We feel --- that this industry is a bit sensitive when it comes to making money, you know, at the expense of people's sicknesses. So it is like... So I often try to stress to our people that... to stress that we must also have the courage to, you know, stand up and say that this is... this is business. --- In business we always have one goal that we're after, and that is to maintain the economic profitability of the business, and this ultimately leads to, you know... it benefits the doctors and the patients, and everyone, if the pharmaceutical industry stays healthy and is able to develop new products. (P12)

Because there's always the fact that we have to remember when it comes to doing business that there is always the thought in the minds of the public that you can't make profit at a sick person's expense. And on the other hand, the duty of a pharmaceutical company is to make a profit so that it can exist. And if it didn't make a profit, this would, as such, be totally unethical. (P17)

Ultimately we come to the question that... Someone might here say that... People's sicknesses, or prevention of sicknesses, should anyone make money out of it? Should it produce a profit to someone? And then we really come to the, you know, the tension between capitalist and socialist economics and worldviews. --- ...Like, it most often seems that the incentive for companies to work in a financially profitable way is, you know, good for us from the viewpoint of the whole society... (P9)

Some interviewees pointed out that they felt the pharmaceutical industry has been unjustly criticized for making a profit, even though the work that the industry does actually benefits society at large:

Like... I will say it once again that... that the pharmaceutical business, as such, today... We do a really good job for the benefit of the human... society... humankind. And the thanks that we get from this... I feel that it is unjustified. (P16)

...And maybe there is just the, like I said, the contradiction that ... [society] gladly welcomes new medicines and wants the best kind of care, but then it [the society] criticizes that "they [the pharmaceutical companies] are plain greedy". (P10)

The pharmaceutical industry has also received criticism for its traditionally high profit rates. However, as interviewees argued, no company (or no government, for that matter) would be willing to take the high risks and costs of investing in a new medical drug discovery unless it could expect a matching high rate of return:

And then there is discussion about our profit margin being too big... But who else would do this risky business? This is done fully on risk financing. **T: Yeah, and the risks are pretty big, like we've now come to notice.** P17: Right. The risks are mega-high. So... Development of medicines would cease to exist [without high profits justified by high risks], because no government can do this on its own. (P17)

Along the same kind of economic reasoning, many interviewees claimed that it is not the responsibility of pharmaceutical companies to look after the Finnish health care system or to keep medicine prices affordable to all patients. They felt it is the social responsibility of these firms to do good business by innovating new medicines, while it is up to politicians or the government to make political decisions about the structure of the health care system so that everybody gets the treatment they need:

You can easily get me going about the question that who should pay for our wellbeing and health? It can't be us [the pharmaceutical industry]. It's the society's job. Society... The one that pays, in fact, decides what it wants to pay. This takes place through our reimbursement system and by other such means. (P14)

In any case, there appeared to be a consensus that pharmaceutical companies cannot exist without the value of social responsibility, since their actions are directly linked to social and societal wellbeing:

Big companies that operate in the pharmaceutical sector must have social responsibility values. And firms must have these kinds of respectable-citizen values. And ethical values, and... environmentally friendly values. And these types of activities... That you are a decent, respectable citizen, and work in society the way that you're supposed to. Then it's like... It then reflects on other people and the whole society. (P6)

...Some kind of good citizenship is one of the most important values for pharmaceutical companies. --- ...And if you are worthy of that good citizenship, then [your company] can function much better in society. (P8)

Whereas, if companies' actions were not up to a good ethical standard, it would cost them in the long run:

Under all circumstances, if and when we take the social responsibility perspective, I believe that [we all benefit] most from medicines being used appropriately. We may get a quick profit if we try to endorse the use of medicines for some other purposes than they are intended, but this will backfire on us, in one way or the other. --- ... So if we had this viewpoint that we might somehow abuse the markets, you know, based on false medical grounds, we would already have been beaten to death many times over. (P9)

While it seemed that all pharmaceutical companies lived up to at least a "standard" level of social responsibility, some had invested in greater socially responsibility than others in order to gain competitive advantage:

Well, then there are these social... bearing social responsibility in one way or the other. Some bear more, some less. Almost all of the bigger companies bear some kind of social responsibility wherever they operate, and you also develop different kinds of things for the less fortunate countries. We have this particular emphasis in our company. --- So [we have] invested in creating a certain kind of marketing advantage out of this. --- If you can differentiate yourself with it, then it works in your favor. And then it pays you to invest in it, if the shareholders decide to let you do it, and then you see it as a good thing. (P8)

To sum up, PIF members all acknowledged the dilemma between making a profit and providing affordable medicines. They responded to criticism by emphasizing that pharmaceutical companies are like any other for-profit businesses: their very existence is based on making a profit. At the same time, though, they all tried to live up to at least a "standard" level of social responsibility.

4.1.3.4 Aggressiveness

Based on the interviews PIF members differed from each other in how aggressively they applied their values in practice. Some member firms appeared to be more aggressive in the market than others, some more willing than others to test the limits of PIF's voluntary

marketing guidelines, and some more aggressive in general than others in pursuing their business goals:

I think that there are differences rather in the way that companies operate and focus their activities than at the level of values. So that some companies are just more aggressive in their operations, and I don't mean to use the word aggressiveness necessarily in a negative sense, but in the sense that some companies are more proactive than others, you know... --- ...in which case these companies may be experienced as more aggressive, like, for instance, by partners and actors in the pharmaceutical sector. (P13)

The differences become apparent in their [some firms'] ways of operating, so that their way of operating is so glaring in some way, so that [the difference] is apparent in their actions so that their values must be somewhat different from ours. **T: What are the differences that usually become apparent?** P16: Aggressiveness. Ways of operating. The fact that they operate so aggressively that their marketing activities, and their activities in general, are excessive. (P16)

And the other thing that I just earlier point to is the carelessness of the company rules, for example. Just these marketing regulations. That there are those [firms] that constantly live on the edge, and occasionally visit the other side of the border, trusting they won't get caught. Which is, I think... It reflects the values of the firm quite well... (P14)

One interviewee even used a war metaphor to describe the aggressiveness of some competitors:

In the mode of operation of some firms there's this that whatever they say, you can trust them. And others bluff more. So... --- it was the pursuit of these, you know, instant business interests. Which also includes this kind of a warfare... Well, that it's accepted that you discuss things with the authorities... you know, with the enemy... and strike them down. --- This must relate back to their values. (P20)

Aggressiveness is an instrumental value; it is not an end in itself, but rather defines the way a company uses its other values. For instance, although all PIF members had the terminal value of making a profit, some were more aggressive in seeking profitability than others.

In itself, aggressiveness is neither a bad nor a good thing. In situations like PIF's internal discussions it could be seen as a positive thing:

You will have to separate two things. Aggressiveness in discussion, and aggressiveness in operations in the field, in the field of action. Aggressiveness in discussions on the board [PIF's board] is very valuable. --- It changes our focus, it changes our fortitude. All these things that are good. So... --- And it makes us discuss [issues]. And it seems that... that they [the more aggressive companies] have advanced by being aggressive, they have got good results. (P20)

A firm's level of aggressiveness is not constant but changes in time, and relates to its current business goals. For example, if a firm needs to increase its market share it may use more aggressive means than it normally would:

That is also relative to time, so that it seems that virtually any company facing a certain kind of a... phase, like when it has to grow aggressively in one or more of its products, it ends up testing the limits of the regulations. In these situations you often test the borders and sometimes also go outside the borders... And then when you arrive at calmer waters, you approach the... the middle of the road... So I don't know if there are many such companies that would systematically be aggressive... (P9)

Thus, PIF members seemed to differ as to the aggressiveness of their actions. Aggressiveness is not a terminal value: it is an instrumental value that defines how a company acts in different situations. Some companies, for instance, can be more aggressive than others in their marketing activities in an attempt to increase their market share.

4.1.4 Summary of espoused values and values-driven management in PIF

PIF members' espoused values appeared highly congruent at the top level. However, there are differences in how the companies applied their espoused values into day-to-day practice. Profit-making was the most important value for PIF members: all member firms valued profitability above other concerns. Yet, they were not willing to make a profit at whatever cost: ethicality and social responsibility were also valued. Although the values of making a profit, ethicality, and social responsibility were highly congruent among PIF members, the companies were found to differ from each other in their aggressiveness in applying the values; some were more aggressive, e.g., in their marketing activities than others.

Most of the PIF member firms utilized values-driven management at least to some extent – although it is good to ask whether this is only talk. At the network level, values-driven management was not applied. While a set of industry values might help to improve the image of the industry, having both industry-level and company-level values might be, interviewees claimed, confusing both for the companies and their employees and also for the general public.

After this look at the espoused values and values-driven management of PIF and its members, I move on to examine the details of network cooperation and how the *actual* values of PIF and its members affect the success of this cooperation in Sections 4.2, 4.3, 4.4, and 4.5.

4.2 Cooperation on legislative issues (PRSI legislation)

This section discusses the successfulness of cooperation within PIF on legislative issues concerning medicines. First, I provide some background information on this legislation and PIF's approach to legislative issues (Section 4.2.1). I then describe PIF members' cooperation in four different subcases related to the legislation (Sections 4.2.2 - 4.2.5). The discussion is summarized in Section 4.2.6.

4.2.1 Background on PRSI legislation

The legislation on the marketing authorization of medicines, the pricing and reimbursement of medicines, and sickness insurance – which I refer to in this study as “PRSI legislation” – forms the primary area of activity of PIF, as this legislation more or less determines the potential level of profits and growth in the pharmaceutical industry. This section analyzes cooperation within PIF on PRSI issues and investigates how the values of PIF and its members are connected to the successfulness of cooperation within the network.

Like elsewhere in the European Union, the pharmaceutical industry in Finland is controlled by legislation, most notably by the Finnish Medicines Act and Decree 395/1987 and its amendments, and the Finnish Sickness Insurance Act 1224/2004 and its amendments. The governmental agency in charge of PRSI legislation and its implementation is the Ministry of Social Affairs and Health (MSAH). (STM 2005)

The National Agency for Medicines (NAM) is in charge of the marketing authorization process. A medicinal product cannot be launched on the market and sold to consumers unless it has a valid marketing authorization. Authorization can be applied either through the national procedure, the EU-based mutual recognition procedure, or the centralized EU procedure. The national procedure is used mainly when authorization is applied for Finland as the first country in the European Union. The mutual recognition procedure makes use of a marketing authorization granted by another EU Member State or by Norway or Iceland. The

centralized procedure is used when authorization is to cover the entire EU region, such as for new biotechnological products and new innovative medicinal products. (STM 2005; Lääkelaitos 2005)

MSAH and its Pharmaceuticals Pricing Board (PPB), in turn, are in charge of accepting a reasonable price for medical products in Finland. The public sickness insurance system, also governed by legislation, reimburses a portion of the costs of prescription medicines to patients, when or if a reasonable price has been confirmed. PPB also deals with applications to increase the prices of medicines. (STM 2005)

In summary, the PRSI legislation includes three basic issues of primary interest to PIF and its members, namely: (1) obtaining marketing authorization for medicines, (2) getting an approved price for all medicines, and (3) having the medicines reimbursed to the customers. These three issues are directly linked to the amount of sales and profit a pharmaceutical company can make in Finland, and so they are of great strategic importance to the whole PIF network. The interviewees were quick to make a note of this:

Our goal is to eliminate all possible waiting periods or whatever obstacles there are. So that the very second that a medicine gets marketing authorization... --- ...at the same moment the patient should be entitled to all the possible reimbursements that the medicine can incorporate. --- So we try to eliminate all the so-called “barriers” to reimbursements. (P7)

What are the most important issues that you have worked with? P13: Well... I would highlight this, you know, this medicines reimbursement system and our goal of renewing it, which we have as a goal in PIF. I mean just this insurance-based or cost-based system... You know, this has, in my opinion, been the key issue here all along. --- **T: ...If I have understood correctly, PIF members have had a unified opinion of what the goals are?** P13: Yes, in my opinion this is true. (P13)

The PRSI legislation is complicated and involved numerous details that call for PIF’s attention. During the observation period of this study (i.e. 1992-2004), PIF dealt with various issues relating to PRSI legislation (see Appendix 1). I will not go into further details of PRSI legislation or PIF’s activities during the observation period, as it would serve no purpose in analyzing network cooperation on PRSI issues. The following discussion of PIF’s

cooperation on these issues deals only with such legislation and activities that are relevant for this analysis.

Since 1998, PIF has had a two-level agenda for reforming the PRSI legislation. As a long-term goal, PIF wants to replace the current PRSI system with a completely redesigned system, “an insurance-based system”⁹, because the current system dates back to the 1970s and has since grown too bureaucratic and complicated. A more short-term goal is to promote changes to the current system to make it more efficient:

And then, after that... After that we started to work hard to renew the reimbursement system in a direction which we say should be more insurance-based, by which we mean that... that you collect funds into medicinal sickness insurance according to how you see where the, you know, the refunds should belong ... or go to. So that’s the principle from one perspective. And the other perspective is that... that the current medicines reimbursement system has in many respects been “enriched” with certain additional elements, after the system was originally created in the seventies. The system has undergone various changes, and has been beefed up with many additional elements, with different kinds of stuffing, so that it has become very, very laborious and difficult. As such the system works quite well at KELA [The Social Insurance Institution of Finland] and at pharmacies, because they have the routines for it, but the system is no longer easy enough for us who go to claim our medicines or try to understand what belongs to the system and what doesn’t. And in this sense the pharmaceutical industry has also tried to stress that we should be able to make the system clearly simpler. And [we have done this] keeping in mind that the system should be insurance-based. (P9)

Briefly defined, the insurance-based system would be a reimbursement system funded with public insurance so that medicines would be paid partly by the customers’ co-payments and partly by the insurance. The current system, in contrast, is not a genuine insurance-based system but a complex system of reimbursements funded by government financing, and governed and calculated by the Social Insurance Institution of Finland, KELA.

⁹ This is the term used by PIF at the time of the interviews of the current study. At the time of finishing this study report, the system is now called “a model based on patients’ annual costs”. This new term emphasizes the point that reimbursements and patients’ co-payments should be calculated based on total annual costs. However, I will keep on using the term “insurance-based system”, because this was the term used by interviewees in the interviews.

Neither of the above two goals of PIF has priority over the other, as PIF and its members understand both goals as equally important. Both are driven by business interests, and the only difference between them is in their timing. It will take time before the new, insurance-based system will be accepted and implemented, so there is a need to patch up the current system before the new system is a reality:

I won't say which one [complete redesign of the reimbursement system or smaller changes to it] is more important, because they're equally important. The difference is in timing, you know... A complete redesign of the system is constantly underway. --- And at some stage it was more like, you know, that while we're trying to change the system completely it's evident that we can't eat the whole elephant in one big gulp... So we have to keep pushing... pushing small changes into the system, but at the same time also work to realize this [complete redesign of the system] and focus on that. (P5)

...So both [a complete redesign of the reimbursement system and smaller changes to it] are important, and we must push forward on both of them, but in the short run, from the firms' viewpoint, it sometimes feels that those... for instance, the obligatory two-year waiting period, and getting rid of it, is like a highly topical issue, because it's related to the success of the firms in the short run, which makes it really important. But we shouldn't underestimate the fact that the complete redesign of the system would benefit all of us... --- So it is imperative that we go forward on both fronts. Because otherwise it won't... Too much of a mouthful, you just can't swallow it, you know. (P6)

After describing PIF's two-level agenda for changing the PRSI legislation I will now discuss four subcases of cooperation related to PRSI legislation in Sections 4.2.2 - 4.2.5.

4.2.2 General acceptance of PIF's two-level agenda for changing the legislation

PIF has had its two-level agenda for changing the sickness insurance system since the beginning of 1998, and practically all of its members support the agenda unanimously:

...The next some sort of development [in 1998] was that we started to talk about renewing the reimbursement system. --- At that time we had a lot of discussions about our policies, what policies the industry adopts [relating to the reimbursement system], and there we reached a mutual understanding of what would be our... mission, our focus, what we would strive at as an industry in terms of renewing the

reimbursement system. And, I think it was significant here that we realized that we can't achieve a complete redesign of the system, because there would be so many changes that there will not be enough political willpower to drive the changes, which was why we started to push for these smaller changes. --- But as such it was a victory that we realized that we need a complete redesign of the system, and will no longer just try to patch up the system. I think that this was, overall, one of the moments in our operations when the industry was extremely unified. There were no voices of disagreement, and everyone... after they heard what PIF was after they all agreed and were ready to support its actions. (P18)

PIF members also seemed to agree on the arguments for the changes: the system needed changes to increase its fairness, equitability, and simplicity both for the industry and for society at large. Additionally, interviewees noted that the current PRSI process did not treat companies fairly, because it was not transparent:

And these, you know, these small problems in the current reimbursement system... --- I mean, there is a [lack of] transparency of the whole system, you know, and [this lack of] transparency in decision-making is, in my opinion, a big problem, or that you can't... you don't know the justifications that the decisions are based on. Or that you can't see it [the justifications] on paper, but you have to try to dig up that information by other means. (P6)

Companies didn't have a clear picture of how it [the decision-making process of the Pharmaceuticals Pricing Board] would take place, but it also seemed that the Pharmaceuticals Pricing Board didn't always know where the ball was. And at this point PIF did a lot of work to improve the process so that it would be transparent for all parties and that everyone would understand what is being applied for and why it's being applied for. (P9)

So the process by which you get admitted into the reimbursement system, it takes too long, and the criteria to get in are still not fully clear... or the criteria are clear, but the criteria are being applied in a way that you don't always know which criteria will be important and when they will be important and what is behind the decisions to accept and turn down some applications. (P18)

Another often mentioned critique against the current system had to do with its bureaucracy, which appeared to be related back to the lack of transparency:

...Maybe one of the times that were very busy for us was when the Pharmaceuticals Pricing Board first started its periodically repeated evaluation and approval of medicines pricing. The prices are, as you know, nowadays approved usually for five-

year periods... and this happens per each medicine group. And the process was started for the first time at the turn of this century, and in many ways the process seemed very, very bureaucratic. (P9)

...Issues concerning prices, they've become more and more troublesome over recent years. And this relates even to... --- ...to the almost bureaucratic functioning of the pricing authorities. Whatever you do to justify your prices, like, for instance, nowadays you also need to file health economics information [together with your applications], it seems to be quite often the case that the authorities don't even read this information. And then again the pricing authorities are always able to find some fact that they use to, well, to drag the price of your product down. Which is... which is, I would even say, arbitrary. (P16)

The critique of bureaucracy also seemed to be linked to the argument that the processes of pricing and reimbursement were not as efficient as they should be, which was increasing the costs of the system for society, as shown by the following story:

Have you heard the story of this [guy] who went to fetch some antibiotics? This is an excellent example. He went to get the antibiotics, which cost him something, and the cost was only just above the reimbursement threshold, so that he received a refund of 10 cents from KELA [The Social Insurance Institution of Finland]. And I have seen a statistics, I can't remember which, but it is... We're talking about huge sums of money, which consist of an even greater number of handlings [by KELA] so that such 10-cent reimbursements can be made. And this makes no sense. So the system is more expensive than the actual reimbursements. And running the system is more expensive. (P14)

One of the biggest issues for the industry, according to interviewees, was the two-year mandatory waiting period before a medicine becomes reimbursable, which the industry sees as unfair and indiscriminating:

The removal of the two-year mandatory waiting period, it has been a big issue for everyone, and every company faces it at some point when they have, you know, a reimbursed [product]... or when they are introducing a product for a certain disease that may possibly be reimbursed. (P6)

The biggest bogey for us was the damn two-years [mandatory waiting period]. It was like... For what damn purpose do we need it? --- The authorities stipulated that [a new medicine will get reimbursed] only when the medicine has been on the market for a while, so that we will get more experiences [of its use]... But it's obvious that... How can you get more experiences if you don't get reimbursements, because

no one will prescribe those [medicines]? And so we have this stupid vicious circle. So if you could remove it [the waiting period], you'd get those experiences, and you'd see if it [the new medicine] is better and if its use should be allowed to increase. (P4)

The industry argued that the two-year waiting period was bad for business, because it effectively prevented the marketing of their products:

The two-year waiting period... --- ...it slows down the launching of your products on the market. A decent launch... of a product that is very dependent on reimbursements... You can't launch it properly [if it is not properly reimbursed], and the launch becomes this sort of two-stage process... First you have a basic launch, like "now it is available", and when you get the product reimbursable, "now it can be used", but if reimbursements are really essential, like for some blood-pressure medicines, you will never have a full launch. It is, instead, always some sort of two-staged process. Whereas if you'd get the product reimbursed at the same time [as you got marketing authorization], then you'd get a full launch. (P10)

But the two-year waiting period was not bad only for the business, because the waiting period also prevented patients from having needed treatments as quickly as they might have without the waiting period:

And the two-year waiting period is, you know, totally ungrounded, so that when a new medicine is introduced on the market, which is not more expensive than earlier medicines but happens to be based on a new molecule, it has to wait two years before it is admitted into the reimbursement system, or to be fully reimbursed... --- ...and those patients that would possibly benefit from this new medicine more than from the earlier medicines can't use the product for financial reasons. Because there are, after all, sicknesses that must be treated with several different drugs. Some medicines don't go together with other medicines, and one medicine may be good for one patient and another medicine may be better for another patient. --- You can't treat high cholesterol, for instance, with only one medicine, you need several different medicines. And there you have it. This one product is waiting to be reimbursed just because there is this two-year mandatory waiting period. So this is, you know, the basic problem. (P6)

Most importantly, what the industry wanted was for the whole PRSI system to be equitable and not favor any company over the others:

I believe that we all want... That all actors in our line of business, independently of what products they have, that all actors, all companies hope that the starting point to

bring a product to the market would be the same for every company. And because the reimbursement system is the bottleneck for bringing products to the market, we want everyone to have equal chances to launch their products on the market, to be sold. (P13)

Overall, interviewees often accentuated that the improvements to the PRSI system promoted by PIF would benefit not only the pharmaceutical industry but also the patients and society at large:

I don't see that it would only be for the benefit of the [pharmaceutical] industry, but it would... I mean that if the system is changed to this insurance-based system, everyone will win. (P6)

...And at the same time [as the competitive landscape becomes equal to everyone along with the new, insurance-based system], the new system would also help the patients, and we are sure that the system would not be any more expensive than it is today. (P13)

For instance, simplicity and predictability was claimed to benefit both the companies and society:

...It makes no difference, you know, as such, what the system is, as long as the system serves patients as well as possible, and companies, and society. So it's... that the system should be simple, and it should be easy to predict what is going to happen. (P18)

The above argument – that changes to the PRSI system would benefit the industry and society alike – is closely related to the earlier discussion of the dilemma between profit-making and social responsibility: How justified is it to “make a profit out of people’s sicknesses” (P12)? The following quotation nicely shows that PIF members did see the dilemma and also indicate its relation to the PRSI system:

Of course when... Let's think about a rare area of disease, like cancer or something else, where the treatments are insanely expensive... Here there's surely also the ethical side that the patient really benefits from this [from the treatments]. If you have, say, leukemia or anything else, breast cancer, which we've found that... it can be stopped... but the treatments cost 100,000 per month... So to get a sound system in place, one that is under KELA's responsibility and that is not under municipal budgets... Then the social [economic] benefits would definitely be great. But then

again, if you ask yourself, say, whether a psychomedicine should be fully reimbursed or not, who would benefit the most, the firm or society? This is sort of a [difficult question]... (P4)

Interviewees noted that PIF members did not believe that the new PRSI system would benefit the industry more than society; in fact, they believed that there was no room for increasing the level of payments from society to pharmaceutical companies, regardless of the system:

The money is all the same... how much money there is and which [portion] of it goes to the industry and which are governmental expenses in the different alternatives [alternative reimbursement systems]... Because you can always think of alternatives... there are as many of alternatives as there are countries [implementing these systems]... --- ...Because I believe that whatever the reimbursement system we have, ... [society] will not pay any more reimbursements than it has paid so far. Unless... unless political decisions are made to give more money for reimbursements. There's always the same sum of money to be distributed. ... [society] will not allow any changes to the system to increase overall medicine costs. Because then the money would have to be found from somewhere. (P8)

T: ...The pharmaceutical industry speaks for an insurance-based system... --- So... how would you answer, from the viewpoint of values, that... Is money behind that also, I mean you'd make more profit [with an insurance-based system]? P13: I don't think so, because the amount of money that society puts into medicine reimbursements is limited. Because you have to decide this... that, how much of the mutual social funds are you going to invest into... medicines and medicine reimbursements. So I don't see any differences there. So that you will somehow limit it anyway [the money that goes into medicine reimbursements]. So I don't believe that it [the insurance-based system] would increase the industry's profits, because the insurance-based system would also be built in a way that it wouldn't give out any more money than today. **T: So the cake will not grow?** P13: It will not grow. **T: So it is the basis of distribution only that will change.** P13: Yeah, yes. (P13)

You must be getting comments from KELA [Social Insurance Institution of Finland] and MSAH [Ministry of Social Affairs and Health] that the insurance-based system will lead to uncontrollable increases in medicine prices, or at least to increases in overall costs, so that...? Doesn't it also mean that medicines could be chosen more freely? P9: Well, it doesn't necessarily mean that. The criticism and comments as such are justified, but it won't remove, this insurance-based model, it won't as such remove any of the governing mechanisms by which you can control medicine costs and usage. Like, today we have, nevertheless, a very unambiguous and extensive system in the sense that you can, on the one hand,

control medicine prices very effectively... where you have a very unorthodox combination of free competition and a control-based economy, and you can take elements from both to keep costs down. --- So I mean... The insurance basis does not as such necessarily mean that you would have to take the controlling mechanisms down completely. (P9)

“But it will increase costs, and it will increase the profit margin of the pharmaceutical industry, and all that, so that there will be pressure to increase costs.” How would you respond to this kind of criticism? P10: Well, I would respond just the way that... the system as such does not create any costs but it is what you decide to reimburse within the system. I mean what medicines [you decide to reimburse]. --- So it [the criticism] is based on the fear that it [the insurance-based system] is a blank check on which anything and everything will be reimbursed. **T: But it’s not that? Or, that you can then control...?** P10: In my opinion you can [control], just by deciding what to reimburse. Because... Those medicines that are within the reimbursement system, or that have been found to be reimbursable in a certain area of treatment with a certain indication, in a certain medicine group, then they are there... within the reimbursement system. And the rest are outside the system. So if you decide that, ok, this is a pretty good medicine but it does not seem to be cost-effective, but it is available, so if the patient wants it, let them pay for it wholly by themselves... or from their own insurance, or whatever, but not from this reimbursement system. So this way... you can control it [the insurance-based system]. (P10)

However, there is no doubt that the value of profit-making was always somewhere behind PIF’s motivation to speak for changes in the PRSI system:

What about, then, when you want to get rid of these, say, two-year mandatory waiting periods and stuff... What’s the most important common denominator [within PIF]? Is money always behind there somewhere? I mean that the industry speaks for things that promote the launching of medicines on the market and high medicine prices, so that you’ll be able to make a profit. Or are there other interests behind...? P4: There are no other [interests]... So it is... No matter how nicely you speak nicely with the tongues of angels, the fact is that these are for-profit businesses whose one and only purpose is to maximize profit. And now that, you know, now that the demands [of the authorities] are ever more increasing, this has led to longer research times, so if and when you find an interesting molecule and start to develop it into a commercial product, it is... You will find this in PIF’s presentations. If the duration of your patent is 18 years, then how many years will you have to make money out of the product? **T: Not many.** P4: Right. You may have, say, something like eight years or less. So this is the reason that... If you get your product fully reimbursable, depending on the system of the respective country, like, for instance, in Finland where there’s a big difference if your product is 75 percent reimbursed instead of 50 percent reimbursed. Because then your sales may easily even triple. And then if you take these big markets... The fact is that when you

have a chance to make a profit ... --- So it's very much money that's at stake here.
(P4)

One often repeated dialogue between the industry and the authorities had to do with the “correct” price for new medicines (also see Section 4.1.3.3 about the dilemma between “correct price” and social responsibility). As representatives of the industry, interviewees argued that new medicines should be given fast access to reimbursement and a good price, or otherwise they would not reach break-even and the industry would not be able to invest into drug discovery in the future. Governmental authorities were quick to respond that new medicines did not always bring as much benefits as companies claimed. Indeed, some interviewees admitted that new medicines do not always offer great advantages compared to old drugs, and some of the new products are only “slightly better” (P4 & P7) copies of competitors’ products. This makes it difficult for the authorities to figure out a “correct price” for a new product and to decide when a product should be made reimbursable:

When you talk about these new medicines and their... Like why their reimbursements are delayed and stuff... And what medicines, in the end, are those real novelties or those that offer new benefits...? --- The industry has always emphasized that unless the reimbursement system changes, and unless you get reimbursed quickly, the patient will not get the best possible treatment. But, the question arises, without being on the authorities’ or anyone’s side, if I look at this thing as objectively as possible... many of the new medicines that have been launched, they have been only slightly better than previous medicines but their prices have, nonetheless, been considerably higher. So, in my opinion, this has been one of those issues where the industry has sometimes failed to prove that... that a novelty is always so much better that it deserves to be fully reimbursed right from the start. --- So the industry has perhaps failed to convince the parties concerned who decide on the reimbursements. (P4)

...And at some point the industry had difficulties to find doctors who would have been ready to support the reimbursement applications for certain new medicines. And you needed to have these supporting statements filed with every new reimbursement application. --- It was important to get a statement [where a doctor says] that the medicine is absolutely indispensable and that patients can't live without it, and that it has to be reimbursed immediately, although there already were a dozen similar medicines on the market and the differences between them were minimal. This is... This is, like... Often it is like this, unfortunately. And even today many of the medicines with which you compete are only slightly better. --- Because often they [the new products] were just changes in formulations which were not, in principle, clinically important from the viewpoint of medical treatment, but then you could double your prices and apply for reimbursement, and when... when you got it, you

could pull the earlier, you could almost say the same, product from the market so that the only product left on the market was the one with the higher price. So... in a way you played the prices up. (P7)

Of course, pharmaceutical companies sometimes discover new medicines that do offer great advantages compared to older drugs. Interviewees also pointed out that this makes it even more difficult for the authorities to find the right balance between controlling current medicine costs and supporting future medicine development. And it does not help that, whatever the authorities do to find the right balance, the companies would try their best to increase the sales of their products:

It just seems to be so that the prices of new medicines are always high, so this brings with it... This is some sort of a red flag for the authorities, like they ask that as “they [the new medicines] are so much expensive, are they also so much better?” --- And when they [the new medicines] are better, and when they are then awarded reimbursement, then [the companies will increase the sales of these products] with their effective marketing capabilities... And the usage [of the new medicines] will immediately increase. So the total costs will grow there, so that it will become... I think that even the authorities themselves can't decide what... what they should do so that the prices of the new medicines would be right and the extent of their usage would be right. Because it makes no difference what kinds of marketing regulations and limitations you install, because people and companies will always find a way to --- market these products. So, if you grant reimbursement for new medicines, their market share will increase immediately. --- ...The new products are surely somewhat better, but their prices are maybe disproportionately high, at least from the viewpoint of the authorities. And if you award the products reimbursement, then these big firms, they will invest so much into marketing that those products will be used. And then we arrive at a situation where their market share is very high and they have full reimbursement... --- So what would be the right balance...? The overall costs will increase anyway. (P4)

So it [the pharmaceutical industry] is very profit-oriented? P20: Very profit-oriented. --- And this had an impact on the fact that... among others... that if there's the option that I will get less sales, and it [my product] stays among the basic products that are cheaper, and I may end up under the threat of generic competition, then in this case I will rather choose to launch a new product. Even if it [the new product] wasn't that much better. --- Some of the new medicines are very much better, of course. Every now and then you discover real innovations. But they [pharmaceutical companies] know very well that [often] there are only small improvements to the products, or maybe none at all. (P20)

The above discussion might give the impression that the pharmaceutical industry is all about profit-making. According to my analysis, however, this is *not* so. Besides valuing profit-making the industry also advocates other values such as social responsibility. For instance, PIF promotes changes to the PRSI system which would increase its equitability and benefit not only the industry but the patients as well:

The renewal of the reimbursement system, it benefits all parties because of its simplicity... So that it... And additionally we would get, you know, new drugs quicker for patients to use, which would be good. So I don't know if... that... that ok, [it's not that] we'd only want more expensive treatments quicker if the old ones are as good as [the new medicines]... This would make no sense. But what would make sense is that if the new treatments are, you know, better than the old ones, so then we must get them available to the patients who need them. Like, now it's often the case, or this issue culminates in the fact, that [the authorities] are afraid to let new drugs to be reimbursed because they fear that the costs will explode... And [because of this] no-one will be able to benefit from the new treatments. And then the situation is unjust for those [the patients] that need the treatments most. (P6)

Many interviewees were also concerned about the long-term financing of the Finnish health care system, saying that the current PRSI system needed changes because it was too difficult for both governmental authorities and private citizens to understand:

Why the insurance-based system, in particular? P9: --- By insurance-based thinking we especially like to emphasize that... We should have a clear understanding of the fact that we need funding for the medicine reimbursement system, you know, to cover the needs of the population. And the needs of the population will develop according to such and such facts, and then we have to secure the funding so that things won't be... things won't be like they are today that the government sets aside a portion of its budget funding for medicine reimbursements, because this blurs the citizens' conceptions of where their paid taxes go to. So the viewpoint should be clear that when you pay your taxes, a predetermined portion goes directly into your sickness insurance. Because... If you think... --- ...as long as our [current] sickness insurance system remains as obscure as it is today, well... no-one now can really see what we should do to secure the future. But if we had a clearer understanding of what it [the sickness insurance] covers and how it covers the costs in the future, individual citizens could also be able to evaluate if they need further security on top of it [the mandatory sickness insurance]. (P9)

All in all, these interviews show that PIF recognized the industry as part of society, and in order to justify its profits it had to argue for the benefits it brings to the rest of society and for its role in bringing down the costs of the Finnish PRSI system:

You can't help thinking about the problem that the authorities have... that how to cover the increasing [health care] costs. The [pharmaceutical] industry is unavoidably involved in the issue... --- So because of this, the pharmaceutical companies and PIF should be proactively negotiating on how to control the health care costs and their growth and... And what, then, is the value [share] of medicines in the growth of total health care costs... what you get out of the products, what is the value-added... so that medicines would not be seen as costs but as [investments]... that they would be appreciated for the worth that they are. Because this is an affluent society and we want people to live longer lives, and better lives, so that... And medicines provide that quality of life. --- So it's a huge challenge, what the proportion of the medicines could be out of total health care costs, seen in a positive way, instead of [seen] the other way round, so that we are in a spiral of panic where we have to save, cut costs, and then end up in a worse situation... (P8)

In conclusion, if we look at the above discussion from the viewpoint of cooperation, it seems that it was easy for PIF members to cooperate on PRSI issues (see Table 6). There is practically no sign of disagreement between them regarding these issues.

Table 6. Cooperation and values regarding PRSI legislation.

Cooperation	Values	
	Profit-making	Social responsibility
	+	+
General acceptance of agenda for changing the PRSI legislation	+	+

Then, if we examine cooperation on PRSI issues from the viewpoint of values, PIF members' values appear to be highly congruent. The number one value behind their PRSI arguments seems to be profit-making. And, as long as the industry is allowed to make a reasonable profit, they also appear to have congruence in the values of equitability and fairness, or social responsibility in general. These congruent values helped PIF members to cooperate on PRSI issues. We can conclude that in the case of PRSI cooperation the congruent values of profit-making and social responsibility were positively linked to better cooperation.

4.2.3 Increased political pressure to cut medicine costs and PIF's reactions

The political pressure to cut medicine costs in Finland started to rise rapidly due to the recession in the early 1990s. This also had an influence on cooperation among PIF member firms. The increased pressure made PIF to realize that changes were inevitable. The industry needed to prepare for the changes and define its strategic focus, or otherwise the changes might seriously hamper their opportunities to do business in the pharmaceutical sector:

Concurrently in the nineties when we introduced new medicines for new diseases that earlier couldn't be treated at all, the medicine costs started to rise. And because of the recession, when the costs of the health care system were being controlled, and the gross national product dropped, the share of health care costs of the gross national product went up. And proportionally... because the consumption of medicines did not go down but kept rising as it had been rising all the time, the share of medicine costs out of total health care costs increased, because the total health care costs stayed at the same level and medicine costs were the only ones that went up... And after this there was this natural reaction by the governmental authorities that something needs to be done about the medicine costs. And at this point they [the government] set up this... this first task force for controlling medicine costs, whose job was to control these costs. And at this point we [PIF members] woke up... and understood that because governments in some other countries had already started to cut back on medicine costs, which had an impact on the industry's operations, we realized that now was the time to do something. And we set up this, you know, this [PIF's] shadow task force [to chart the government's task force]. This was done in order to push things forward. But still at this stage, seeing the focus... what were the issues that we should look at and what was the focus on which we should build our strategies, which our members could commit themselves to... they were still quite deficient. (P18)

Of course, even though PIF's strategic focus was not clear at the beginning of the 1990s, PIF itself was not inactive. One of its first responses to the increased pressure came already during the recession, as the industry voluntarily agreed to freeze its medicine prices in order to avoid unfavorable legislative changes:

Maybe the first big joint effort [by PIF members] happened there... right there in the middle of the recession when we committed ourselves to this kind of a dampening of prices, or freezing of prices. --- This happened in a situation where we had been able to steadily increase our prices, so that the industry committed itself pretty much unilaterally to some sort of freezing of prices for a two-year period. Here we had the thought that we won't increase prices if we could in this way prevent [adverse

changes to legislation]. --- It must actually have been the reference price system that we wanted avoid with this operation [freezing of prices]. (P9)

However, the industry still had no clear strategic focus, because it had seen only steady growth and had not yet faced serious legislative challenges that might have affected the business conditions of the pharmaceutical industry:

T: Can you see the reason for this? That it was deficient [i.e. that PIF lacked a clear focus and strategy]? P18: Well... There was no reason for us to do so... --- ...There hadn't been many of these really big issues where the government would have wanted to intervene in the operative environment of the pharmaceutical industry. So there had been no need for PIF's activities. And there were no... All of the firms had been growing heavily. All firms' sales were growing. (P18)

It required several years, up until the end of the 1990s, before PIF really understood that it needed to find a common factor behind its members' heterogeneous business interests:

We didn't see this... this common denominator [among PIF members], and we couldn't in a way vision the future, so that at some point this [steady growth] had to come to an end, and that we'd have to start thinking about our operative environment, and from there to find our common denominator, and then start jointly pushing some issues forward. And we didn't have that yet in 1996. And not even in 1997. So PIF operated more based on input from its individual member firms [and less based on a joint strategy], and the members were very heterogeneous... So it was, in fact, difficult to make decisions inside PIF, like what we should do, because one firm would say something and another firm would say something else, and we didn't try hard enough to consolidate the viewpoints. --- So it [the tightened grip of the authorities] in a way united the industry and we started to see that if we didn't act uniformly with regard to certain issues, individual firms could no longer keep it up. --- So the way I see it is that the end of the nineties was the time when a lot happened, things that unified the views of the industry. (P18)

The increased legislative pressure to cut medicine costs in Finland, thus, only recently forced PIF to really step up and start doing things together:

Somehow it feels like... and I have followed the industry closely starting from the seventies ... that there's been a lot of buzz during the last five years. So it has been... PIF has done quite a lot, and there have been many issues on the list, but... There wasn't that edge... The environment has been quite static, so there have not been many big issues. Only recently have there been [these big issues]. (P10)

If we examine the above story about increased pressure to cut medicine costs and PIF's reaction to this pressure from the viewpoint of cooperation, we can conclude that cooperation actually improved in the face of outside pressure (see Table 7). PIF's focus became clearer and its members started to do things better together.

From the viewpoint of values, it is fair to say that the most influential value that helped PIF members to improve their cooperation in the face of outside pressure was profit-making. As one of the interviewees noted, PIF improved its cooperation because it had to get involved in the "really important issues, by which society attempted to change the *business conditions* of the pharmaceutical industry" (P18; emphasis added). In other words, the industry stepped up its actions because the outside pressure threatened its capacity *to make a profit*.

Table 7. Cooperation and values regarding increased pressure to cut medicine costs.

		Values
		Profit-making
Cooperation		+
Increased pressure to cut medicine costs	+	+

To conclude, in the case of increased pressure to cut medicine costs the congruent value of profit-making had a positive influence on PIF cooperation. It is important to note, though, that this value did not *cause* PIF members to cooperate better; the ultimate reason was the increased pressure and the value of profitability merely helped to determine the way in which PIF members reacted to that increased pressure.

4.2.4 Key changes in PRSI legislation and PIF's reactions

The PRSI legislation changed quite a bit during the observation period of this study, from 1992 to 2004. From PIF's point of view, the legislation was much simpler before a big legislative change took place in 1994. Before, there had been a single, straightforward process in which a given medicine was granted marketing authorization, determined a price, and approved for reimbursement:

So if we start here from the beginning, it was at this stage... It was so that the National Agency of Medicines decided on the price of a product up until the year 1994, as part of the registration process. And at the same time as the price was decided upon, and we got an approval from the authorities, the product was fairly automatically awarded reimbursements for those sicknesses that [whose treatment] were reimbursable. So the system worked so that it [the decision on the price of the product] was part of the registration process, which was why we didn't pay too much attention to the pricing and reimbursement system. So it was lost in the... In a way, you can say that there was only one regulatory process, where you had, on the one hand, registration [authorization] and, on the other hand, the decision on the price and reimbursement, so the price and reimbursement decision was lost in the process. And this worked well as a one process, as only one authority decided on the medical... the grounds for both the registration and the price. (P18)

The industry had been quite happy with this situation, although the registration process could have been quicker:

And this had worked pretty well ... Of course, we always wanted the process to be quicker... The process took overall... it varied... it could even take longer than two years. And this is when we accused the National Agency of Medicines that the process takes too long. In other countries this would have happened quicker, and so on. (P18)

At the beginning of 1994 the PRSI system changed so that the marketing authorization process and the pricing and reimbursement processes were split in two. This was done so as to harmonize the Finnish legislation with the contract for the European Economic Area (EEA), which Finland had joined at the beginning of the year.

PIF and its members had not really analyzed what the change, i.e. the splitting of the process in two, meant in terms of doing business in the pharmaceutical sector or in terms of the daily

operations of pharmaceutical companies. After a while, the situation grew chaotic. PIF member firms were baffled by the new marketing authorization and pricing/reimbursement processes, which began to have an adverse affect on their business:

But we didn't realize what changes the EEA contract would bring along... We just waited for them to be separated, the registration from the price and reimbursement decision, which would speed up the launching of medicines on the market. We were very happy with this. But we didn't give it any thought that the price and reimbursement applications would take their time, too. --- We didn't have any clear agenda, or any clear policy, on what we wanted. And after the EEA contract came into force and this current Pharmaceuticals Pricing Board was founded, then... And even though the Pricing Board organized this information session about what are the demands of the new application processes, and these demands were also on paper, even at this point the industry did not actually believe in the demands. We thought that everything would go as before, you know, via negotiations. That there was no need to exchange any papers... --- But the first applications that we filed in 1994 to the Pricing Board, not everything was in order in them... they lacked all the necessary information. They were these sort of... We just sent a paper [saying] that "this is the price that we need, and [in our opinion] this price is reasonable". And we didn't fill in any criteria of the applications. And because of this we started to get rejections, which was something completely new to us... Now you had a product that was registered [authorized], but you didn't have a price and reimbursement decision for it. This hadn't, you know, happened before because the registration and the price and the reimbursement decisions had been integrated. So that when you had registration, you also had a price and reimbursement. Now suddenly, you had a product that was registered but was not given a price or reimbursement. So what do you do? Some of the firms launched their products on the market with zero reimbursements, some waited, and the situation at this stage was quite chaotic. Gradually the firms started to understand that there's this process that you just have to follow. That applications must meet the criteria set by the law. And the quality of the applications began to improve. But still there remained the fact that there's this independent authority that can either approve or reject your price applications. And if you got a rejection, you could apply again, but the clock kept ticking all the time. And this was... It took some time before we started to realize the full meaning of this situation. (P18)

One reason why PIF and its members did not seem to take the new situation seriously enough was that they did not believe that the authorities really meant to enforce the changes. After all, the industry was used to settling these kinds of situations by having informal by discussions with the authorities. This time, however, the authorities were in earnest about following the law and the regulations, and there was no room for discussion:

The biggest factor here was, I think, that we still believed that this was just a temporary... That everything would be fixed if we just talked and negotiated. And we still didn't see that the authorities were serious... that they would follow their mandates and their rights, and follow them to the letter. So... The time when we could, you know, talk and negotiate things over together and find a suitable solution had passed. And understanding this took surprisingly long for us. --- And now that you look at the papers afterwards, knowing what has happened, it is all obvious. You don't pass a law and regulations, norms, as carefully as that unless you are going to follow them. And demand that they will be followed. (P18)

The first PIF member firms to really understand the new situation were the ones whose business it affected most:

It took almost a year before we realized this within the industry. Some of the companies realized it sooner than others because the situation concerned them. So that your own product has been given a price, but not the special reimburse rate [75 percent compared to the basic reimbursement rate of 50 percent]... And you don't know when you will get it [the special reimbursement rate], and you can't plan your business, because at the time it was commonly believed that if your product only had a basic reimbursement [50 percent]... --- the product would not be prescribed by doctors, and you commonly saw that there was no point in even launching the product [without the 75 percent reimbursement rate]. So the special reimbursement rate was that important. --- So this was yet again another process [where it took some time] before PIF understood, and the firms understood, that we have to do something about this. --- But the process, before it was finished, it took almost a year starting from the day the first firms noticed that the situation in Finland was unbearable, that we didn't have any system by which to apply for the special reimbursement rate. (P18)

After a while, the situation normalized and PIF set up processes to follow up and lobby for changes in the processes of marketing authorization, pricing, and reimbursement:

Well, of course, when Finland adopted the common European model whereby the National Agency of Medicines, or in other countries a comparable authority, is responsible for the marketing authorization of medicines, and where prices were totally separated from this process, then we naturally started to try to make sure that the National Agency of Medicines operated in an efficient manner in approving marketing authorizations, because a marketing authorization is a clear trigger for pharmaceutical companies to start selling and marketing their products. And the other element is that we started to monitor the newly founded pricing process, you know, as they founded this Pharmaceuticals Pricing Board, which has now operated for about 10 years... --- PIF's mission was, of course, to find a way to somehow cooperate with the Pharmaceuticals Pricing Board. (P9)

Nowadays, getting marketing authorization for a new medicine is not a problem for the industry, according to interviewees. The real problem in the new situation is in getting a good price for the product and having the product reimbursed:

Marketing authorization is not a problem in Finland. At some stage this was a problem, too, so that the application periods were long, but this problem is now history. --- The National Agency of Medicines is efficient. We get marketing authorizations quickly. But then again, this doesn't help the marketer much, if we don't get a reimbursable price, either a basic reimbursement rate, or if needed, a special reimbursement rate. So this [getting products reimbursed] is now the focus. (P10)

From the viewpoint of cooperation, the above narrative indicates that the changes in PRSI legislation caused PIF members to step up and improve their cooperation: PIF became more focused, more unified, and started to take charge of the situation (see Table 8).

If we look at it from the perspective of values, we can conclude that the congruent value of profit-making helped the industry to become more focused and to take charge of the situation. Had the business of some of the companies not have been adversely affected by the new situation, there would have been no reason for PIF to pull its actions together.

Table 8. Cooperation and values regarding changes in PRSI legislation in 1992-2004.

		Values	
		Profit-making	
Cooperation		+	
Changes in legislation during 1992-2004	+	+	

To sum up, in the case of changes in PRSI legislation during 1992-2004, the congruent value of making a profit again had a positive influence on cooperation.

4.2.5 *Competing business interests of PIF members with regard to reimbursements*

Section 4.2.2 showed that PIF members cooperated well when it came to supporting PIF's overall argumentation for PRSI issues. However, if we look at the practical, daily operations of the companies in applying for a price and reimbursement for their own products, we can identify instances of competition instead of cooperation. This is by no means a surprising finding in a cooperative network such as PIF which, by definition, includes aspects of both competition and cooperation.

The reason for competitive behavior within PIF was that the current PRSI system benefited some companies more than others, depending on the products sold by them. Some products got a higher reimbursement rate than others and, in general, the higher the reimbursement rate the easier it is to sell the product. Hence, while its members appeared to support PIF's argumentation at the general level, interviews showed that, given the chance, they would speak especially for their own products to get a higher price or a higher reimbursement rate:

So, it can be so that if two similar products have been launched on the market at more or less the same time, and the producers of the products want both products to be reimbursed, then obviously you will try to show that your product is even better than the other one, and... --- Usually we go along the same lines, so that the lobbying is done by PIF's board or executives... --- But if a certain company has some special interests that it wants to emphasize, something like "our product is even better if you look at it from this perspective", and that the product should be reimbursed, or that you go to tell news from abroad that "our product was just awarded reimbursement in Sweden and Germany", or something like this... So this does happen in the background all the time... And it's not just limited to lobbying by PIF. It [lobbying by individual companies] is extremely intense. And especially these big, international companies, they practically live [together] with the MEPs of the European Union. --- So the thinking [within PIF] is quite congruent, because it doesn't really matter if you seek reimbursement for a cancer medicine, a heart medicine, or antibiotics... the goal is the same for everyone, to obtain [reimbursement] as soon as possible... to get the money in from the market. But, like I said, everyone looks after their own special interests at the side. (P4)

We've competed more over which therapy-group medicines are reimbursable with the basic or the special rate according to the current reimbursement system. So here we have perhaps more friction [between PIF members], because the members are not equal in that... some medicines are reimbursed with the special rate and some are reimbursed only with the basic rate. --- So this [competition] occurs in the current system. --- When members have special interests of their own, in connection with

their product portfolios, then [they have an interest] to act so that especially the products in their product portfolio would get reimbursed with the special reimbursement rate. (P13)

So it depends on your medicine... or product portfolio [what kind of products you lobby for]. We have a lot of central nervous system medicines, so what's important to me, of course, is that these products would all continue to get the 100 percent reimbursement rate. So... 100 percent reimbursement always. So this [current reimbursement system] in a way leads to... directs and distorts our thinking. --- If you ask different members of the board [of PIF] what they think of this issue, you may get different comments depending on what products their portfolios contain. (P16)

This situation was the product of the current sickness insurance system. Within the new, insurance-based PRSI system endorsed by PIF there would be no interest for individual PIF members to promote their own products directly to the authorities, because all products would be reimbursed in the same way:

In an insurance-based system you wouldn't have this contradiction, because everything would start from the premise that this... [this system] treats all companies impartially, independent of what kind of products their product portfolios contain. (P13)

From the perspective of cooperation, then, the daily activities of PIF members regarding price and reimbursement applications indicate that the system created some competitive tension between PIF members, because it treated companies differently depending on their product portfolios and gave some companies an incentive to speak in favor of their own products directly to the authorities (see Table 9). This was not a big problem for PIF, and cooperation among members was generally good when it came to PRSI issues, although there were some signs of tension in the cooperation.

Again, if we approach this case from the viewpoint of values, it is evident that profit-making was at least partly behind this slight disruption of cooperation. There would have been no reason for PIF members to act in this manner had it not given them a chance to increase their sales or profits.

Table 9. Cooperation and values regarding competing business interests in PRSI issues.

	Values	
	Cooperation	Profit-making
		+
Competing business interests of PIF members regarding reimbursements	-	-

In summary, the congruent value of profit-making had a negative influence on cooperation in the case of competing business interests, or, in other words, a positive influence on competitive behavior among network members.

4.2.6 Summary: Cooperation on PRSI issues

Table 10 summarizes the discussion on PRSI issues. We can conclude that, overall, cooperation on PRSI issues among PIF member firms was quite good. Only competing business interests created some tension between them in their day-to-day activities regarding applications for prices and reimbursements. This tension did not, however, significantly disrupt the overall smooth cooperation on PRSI issues.

The congruent value of profit-making continued to be central in determining PIF members' cooperativeness in relation to PRSI issues. It helped companies to accept PIF's general arguments for changes in legislation, and determined how to respond to the increased political pressure to cut medicine costs and to changes in legislation. However, the congruent value of profitability was found to disrupt cooperation in the case of competing business interests of network members regarding price and reimbursement applications.

Table 10. Cooperation and values regarding issues relating to PRSI issues.

Cooperation	Values	
	Profit-making	Social responsibility
	+	+
General acceptance of agenda for changing the PRSI legislation	+	+
Increased pressure to cut medicine costs	+	0
Changes in legislation during 1992-2004	+	0
Competing business interests of PIF members regarding reimbursements	-	0

The congruent value of social responsibility helped PIF members to agree on the general agenda for changing the legislation on PRSI. Yet, this value was subordinate to the value of making a profit, meaning that the latter had a more significant influence than social responsibility in determining PIF members' attitude towards PRSI legislation. Social responsibility did not seem to have any visible role in determining the successfulness or unsuccessfulness of cooperation with respect to the increased pressure to cut medicine costs, changes in legislation, and competing business interests.

4.3 Cooperation on voluntary control of marketing of medicinal products

This section discusses the successfulness of PIF's cooperation vis-à-vis issues relating to controlling medicinal marketing. First, I start with background information on controlling the marketing of medicinal products (section 4.3.1). Next, I present and discuss two subcases of PIF's cooperation relating to the controlling of medicinal marketing (sections 4.3.2 and 4.3.3).

4.3.1 Background on the control of medicinal marketing

Advertising of medicines and medicinal products in Finland is regulated by law (Medicines Act (395/1987), §§91-93, Medicines Decree, §§25, 25a-i §, and Consumer Protection Act (38/1978)) and monitored by the National Agency for Medicines (NAM). The law stipulates that advertising of medicinal products shall encourage people to use these products appropriately, and not be improper or induce people to use the products unnecessarily. Any complaints of illegal advertising shall be addressed to NAM, which then intervenes if necessary. Complaints can be submitted by companies, interest groups, and private citizens, whereas no anonymous complaints will be processed. (Lääkelaitos 2005)

If illegal advertising is observed, NAM sends a reprimand or a request for clarification and a copy of the complaint to the pharmaceutical company concerned, but it will not provide the complainant's contact information. The firm in question is given the opportunity to submit a rejoinder, on the basis of which NAM then decides on the need for further action. If such action is required, the company will be informed of the action in writing and also allowed to submit a rejoinder. Both the company and the complainant will be informed of the action taken and of the conclusion of the process. (Lääkelaitos 2005)

In addition to legislative regulations, the pharmaceutical industry controls its marketing practices *voluntarily* by its Code of Marketing of Medicinal Products. This code is drawn up by PIF together with its members based on the legislation relating to medicinal products, consumers, and competition as well as on the International Code of Advertising Practice and the provisions introduced by EU Directive 2001/83/EC on Medicinal Products for Human Use. (PIF 2005)

Compliance with the voluntary Code of Marketing is monitored by the Supervisory Commission for the Marketing of Medicinal Products and by two Inspection Boards working under this commission. Inspection Board I monitors all marketing of medicinal products to the general public, and checks all pertinent magazine and newspaper advertisements from a two-week period four times a year. All radio and television commercials are inspected in advance. Inspection Board II monitors marketing activities addressed to health care personnel. On request, this inspection board will determine whether or not a product has been marketed against the guidelines. The board may also deal with or issue statements on its own initiative concerning marketing matters in general. Both inspection boards have four permanent members and their personal deputies who are experts not working in the pharmaceutical industry, as well as a secretary. (PIF 2005)

The Supervisory Commission deals with appeals against decisions made by the inspection boards. If necessary, it deals with and issues statements concerning marketing principles and matters guiding the work of the inspection boards and also appoints their board members. The commission comprises of a chairman and five members and their personal deputies who are experts outside the pharmaceutical industry, in order to guarantee the autonomy of the commission, and a secretary. (PIF 2005)

If a marketing practice is found to break the Code of Marketing of Medicinal Products, the company concerned may be given a warning or ordered to discontinue the practice. An order to discontinue a marketing practice is made if the violation is major. At their discretion, the commission or inspection boards may sanction the company breaching the guidelines with a fine of not less than EUR 1,000 nor more than EUR 50,000 for each breach. In case of continued violation of the guidelines the Supervisory Commission may order the company to pay damages of not less than EUR 20,000 nor more than EUR 200,000. Disagreements

between companies concerning violations of the marketing guidelines are first submitted for examination as set forth in the Code of Marketing before they are brought to the attention of the relevant authorities, namely NAM. (PIF 2005)

4.3.2 Successful cooperation in drawing up the new Code of Marketing

As the industry association, PIF is responsible for preparing the Code of Marketing of Medicinal Products. The latest marketing code was being drawn up by a specific committee steered by PIF's board at the time of conducting the interviews for this study, and came into force at the beginning of 2005.

The new Code of Marketing for Medicinal Products was stricter than its previous versions. Many previously acceptable practices were no longer approved by the new guidelines, which were also clearer about what is and what is not acceptable:

There used to be quite big differences in how companies interpreted and applied the code of marketing. And this has had the consequence that, from time to time, we've had discussions on the board [of PIF] about the marketing code and marketing principles in this field, that we've got to get things in order. And this is why we put together this committee of renewing the code of medicinal marketing, and as a result we now have these new guidelines. --- And I think that this... that these concrete examples of what is permissible according to the code of marketing and what is not... We have previously lacked this information. And companies have drawn their own guidelines according to how they have interpreted the code of marketing. So we have lacked this... this catechism, what all this means in practice. But now we're trying to achieve this by educative means, by creating these example cases of what... examples of what is and what is not allowed according to the new rules. (P13)

Let us take an example of the toughened guidelines and look at the educative work done by pharmaceutical companies with doctors in Finland: It is common for medicine producers to invite doctors to events where they are given the latest information on new medicines and new possibilities to treat patients. This is commonly accepted as necessary refresher training for medical practitioners. Thus, in a way, the pharmaceutical industry pays for postgraduate education of Finnish doctors. Earlier the pharmaceutical industry commonly added "social functions" (P12) to these training events, such as concerts or golf tournaments. These social

functions have aroused debate over the years about the limits of “educating” doctors. What is permissible and what is not? Where does education end and marketing begin? The new Code of Marketing set clearer limits to the social side of these educative events:

It [the new code of marketing] is now a popular subject of discussion within the pharmaceutical industry, because it will lead to changes in how we act and think. --- [There] will be quite big, big changes. So we’ve seen that these changes are big, so that... Medicinal marketing in Finland... During the time that I have been [in the industry], for about 25 years, we’ve had this discussion from time to time ... that there’s this silliness... I call it silliness, which may give a slightly hysterical picture of all this, but with silliness I mean that... Firms have added to these educative events, which as such are no-nonsense events, [they’ve added] some kinds of concerts, side events of all kinds, social functions, sports affairs, golf nowadays, and all that... And according to the new code of marketing, all this will be left out. Or you’ll have to leave it out. (P12)

The main reason for tightening the marketing guidelines was the growing criticism of some of the more questionable marketing practices by the authorities and the media:

Times change, and, well... We have to be responsible for our own marketing activities to society, to the media that very easily connect these two things: medicine prices and this silliness. Like there’d be some kind of connection. And, of course, these are marketing costs, and you will see these marketing costs in product prices in one way or another, and... If you see a bunch of doctors somewhere, jumping about, having taken some alcohol, and you see the sign of a pharmaceutical company up there, or even the name of a certain medicine, then yes, personally speaking, this can be irritating. (P12)

Thus, the main motive for PIF to write up a new marketing code seemed to be a desire to improve the image of the industry:

The primary, and the ultimate, purpose [of the new code of marketing] is that the firms will act in a way that improves our public image. So that we won’t end up there in the tabloids... That we’re... Like that cooperation between doctors and the industry is such and such, or that such and such pharmacist... So [we should act so] that we’ll get rid of that crooked image, that everyone would follow these rules as well as possible. (P4)

As one who works in the field, it irritates me to think that... that how can someone [or some company] do these things that bring down the credibility of this industry, and our image. --- A leading thought [in drafting the new marketing code] was,

among others, that we'd use this *Ilta-Sanomat* test [named after a Finnish tabloid newspaper] that if your actions live up to the scrutiny of its journalists, then fine. But if your actions evoke frontpage news that, well, disrupts the image of the pharmaceutical industry, then you're clearly on the wrong path. (P12)

We've discussed this matter a lot, you know, on the board, and... Well... We should all operate so that our activities don't end up in the tabloids. (P16)

PIF members all agreed upon the new Code of Marketing with their official signatures. Therefore, it seems that network cooperation on marketing guidelines was quite successful in that there was a high degree of unanimity behind the new code. At the level of actual marketing practice, however, there was some disruption in cooperation. This is the subject of the next section.

4.3.3 Unsuccessful cooperation at the level of marketing practice

Although the industry had successfully drawn up and agreed on the new Code of Marketing *at the top level*, some PIF members were not happy with the strictness of the new guidelines with regard to the practices of daily marketing. It was clear to PIF right from the beginning that the new code had to follow the law, but some members found the guidelines to be too tight:

Very soon at the beginning we agreed that, you know, we can't break the law that governs the medicinal industry. So we can't make rules that allow something that the law forbids. But... well... During the first year that we had these discussions on the board, there was clearly this sentiment that we can't create too restrictive rules either... that we can't tie our hands too tightly in this matter. Of course not. (P12)

I had this feeling [about the code of marketing] that, hey... Are we really, on top of the laws already stipulated by the authorities, making our [own] rules even more restrictive? And it could be that... that now that we're voluntarily limiting this... or narrowing our field of operations, then the authorities might add their own views on top of that, which would limit [the marketing practices] even further and further. And I tried to suggest that we shouldn't give away too much too early and that we should leave a little room to operate also on our side, so that, if need be, we might give more later. (P14)

Those rules [the code of marketing] that we've now renewed, which will come into force the first of January next year, and the discussion related to that... --- ...we had partially differing comments there [by board members]. There were those who thought that the text [of the code] should follow the law that the authorities have stipulated almost word-for-word. And then there were those who thought there was no point in setting too restrictive limits at this stage, because it would limit our business. (P16)

Interviewees also accused some companies for not sticking to the Code of Marketing despite their official commitment to it:

But then we can see that there are these, sort of cultural differences between companies, and... Well, I don't mean to poke a finger at any anyone in particular, but some firms are worse than others, in my opinion... The way I see it is that the operating principles of company A, in their marketing activities... they're much more, you know, free-minded, and more at odds with the boundaries of the laws... they're banging into the walls all the time. In a way, they're tightropeing... (P12)

Indeed, it was not uncommon for interviewees to say that their own company followed the Code of Marketing but that some of "the others" breached the guidelines:

Well, then there are these other, other firms... and I would count us as a firm that is... We've tried to look at this matter early on, that, you know, what we can [and can't] do... --- Sometimes I've had a hard time directing our own people and developing this philosophy that we should, in the long run... that if we do the right things this will carry us into the future. And, if and when more drastic changes [are made to the regulations], then these changes will not affect us so much because we've already gone in that direction. We're not... I don't mean that we've never had any [misconduct], but there's certainly a lot less of it than, say, a five years ago. (P12)

I would say that our firm... --- ...we have had very few incidents of misconduct. Because we really try to follow the code of marketing, the old and also the new one. But the fact that we're now in the tabloids for taking one doctor to a foreign conference, you know... there's nothing wrong in it as such. Especially because we don't do this continuously. (P16)

However, the following story by an interviewee indicates that none of these companies were completely innocent – if not very guilty either:

We [PIF's board] sat there around the table and deliberated on this issue, you know, the justification for it [adding social functions to educational events], and, well... I drew a summary of the discussion and started my summary by saying, you know... "We're all gathered here around the table, representatives of the twelve firms [represented on the board]", and... "I can say that I've held this type of an event this year"... And I told them about this wine festival we had... "If there's anyone here that has not done anything like this, or knows that your company's marketing people haven't done anything like this, I'd like you to come forward"... And you know, everybody there was so immersed in their papers that... No-one stood up, because no-one could come forward... --- So there'd a little bit of this hypocrisy that... that you shake hands on these [regulations] with bright eyes, so at least the firms represented on the board won't resort to misconduct... But as soon as you go back and settle down behind your desk, you get a message saying that, you know, this firm or that has organized an event that is... that represents something else than appropriate marketing. (P12)

One reason why these companies had ended up pointing fingers at each other may be that although the CEOs of each PIF member firm had all agreed to and confirmed the marketing code with their signatures, indicating top-level commitment, their marketing directors or other employees might think differently and break these guidelines, implying less commitment at the level of actual marketing practices:

I think it should be so that the top executive, and especially the CEO, should sort of dictate how we do things [within the organization]. "If we want to be a good actor in this field we've got to stick to these rules". But then it depends quite a lot on the marketing director, whether he or she is, like, free-minded and keeps testing the limits of the rules, or whether it's a question of sticking to the rules, or does he or she do what the CEO says. --- You easily get the feeling that, you know, that information doesn't flow very well between the top executives and the operative level. (P12)

I believe that everyone [on PIF's board] agrees on this matter that we should act like this [follow the regulations]. But then... In some big companies you don't always know what the other people [sub-ordinates] do, which... which sometimes leads to these unfortunate [cases of misconduct]. **T: Ok... Yeah... So it goes something like this, that you should get your employees to do what you say...?** P16: Right. (P16)

And whether this decision [to test the limits of the marketing regulations], then, is made... you know... at the executive level in the company, or whether it's because the company has this culture that makes it interpret them [the regulations] in this way... Because often when you have these discussions... or not often, but when we've had these discussion about the companies' marketing practices and how they

have implemented their marketing operations, it has sometimes come as something of a surprise to the CEO how his or her own company has acted. (P18)

Then, of course, all kinds of funny stuff takes place around this... in a way, around this marketing, marketing stuff, so it can be that the CEO level engages in intellectual discussion among themselves, and then there's this marketing manager, marketing director, who has a case [of competition] going on with another [marketing director or manager], and this is a completely different world, in a way... --- At least most of the CEOs understand the common interest of the whole industry, but then there can be these two guys [marketing directors or managers]... they have these goals that they've got to meet, and they're competing with one or two other firms over a certain therapy area, so that [practical] reality is a bit different. (P11)

Sometimes, though, it was not just a "marketing director", "marketing manager", or "employees" that were to blame. Some CEOs seemed to agree to the marketing guidelines without really being committed to follow the guidelines at the practical level:

We'll see if the new code of marketing of medicinal products really changes the principles of medicinal marketing. --- This depends largely on the executives of pharmaceutical companies, and especially on their intentions, whether they really want to control this kind of inappropriateness that is hampering the image of the pharmaceutical industry. Whether we succeed in this or not, we'll just have to wait and see. (P13)

We have now created these new guidelines for medicinal marketing, which will be signed by each and every firm. So we're all committing ourselves to following them. But when you return into the real world, everyone will test the limits [of the code of marketing] here and there to see whether this or that behaviour really is unacceptable and if the authorities or the competitors will notice it. So this is the same as... everyone there's a little bit... hypocritical... when they agree on things. (P4)

Interviewees further noted that, although none of the companies were completely innocent, some were more aggressive than others in their marketing activities:

I have this idea that some of us use more inappropriate marketing measures [than others]... And then there are these [firms] that try to... try to operate according to the, you know, the regulations and the law. --- I feel that this relates back to the firms' general operating practice. That there are clearly those firms that are, you know, more aggressive and then those that are less aggressive. (P16)

Well, you can find this in the statistics that --- there are a few firms that are more often than others both claimants and defendants in these cases of dispute. And this isn't always related to being a big or a small firm. --- For instance [company X] is often [involved] in these... these things... and maybe this, in a way, reflects their, you know, their tendency to challenge [others] competitively. --- But somehow it seems that some firms turn up more often than others with these cases [of dispute] whether as defendants or as claimants. (P12)

This aggressiveness frequently had to do with the competitive situation within the industry.

Toughened competition seemed to give rise to harder marketing measures:

So, in this sense, this [some firms breaking the code of marketing] is unfortunate, because... First we decide on something, and everyone agrees on this thing, more or less, that we... that we'd operate according to it [the code of marketing]. But the very next day you hear that something totally different has been done. **T: Why do you think this happens?** P16: Maybe it's because competition is so fierce that... that you get this excess behaviour. (P16)

For instance, if a new market was opening, companies seemed to be more inclined to disregard the marketing code and resort to more questionable marketing measures:

When a new group of therapies or medicines is launched on the market, and you have a number of different product launches during a short period of time within this therapy group, the case is often so that... that, frankly, there's bloody competition over who gets the biggest market share. So in this type of situation, I think, that these... these things culminate in a way that you've got to endorse your own product and get doctors to prescribe it. And this way... you may not always remember the marketing code, whether everything goes by the book or not, but what you look at first and foremost is your market share. And then you forget everything else. --- So this is one thing that, in a way, adds to the... to the tendency to visit the gray area between what is allowed and what is not. Even if a company itself fails to realize this, the harsh competitive situation leads to, that, hey, you've got to think of every means by which you can endorse your own product. (P13)

However, it was not always the competitive situation that drove PIF members to use more aggressive marketing practices. Sometimes the reason was that some companies were just more ready to bend the rules than others:

That there are those [firms] that constantly live on the edge, and occasionally visit the other side of the border, trusting they won't get caught. Which is, I think... It reflects the values of the firm quite well... "Who cares?"... (P14)

...If this firm had honesty as its value, and also really lived by this value, we wouldn't see them, you know, bumping into the fences of marketing regulations. (P12)

The more aggressive players appeared to differ from the rest in that their values simply were more aggressive:

...Are they [the values of PIF members] similar or different? P16: Well... I think there are a lot of similarities, but also differences. The differences become apparent in their [some firms'] ways of operating, so that their way of operating is so glaring in some way, so that [the difference] is apparent in their actions so that their values must be somewhat different from ours. **T: What are the differences that usually become apparent?** P16: Aggressiveness. Ways of operating. The fact that they operate so aggressively that their marketing activities, and their activities in general are excessive. (P16)

This, of course, raises the question: Which comes first? Are companies aggressive because their values are more aggressive, or does it only appear that they have more aggressive values because they act aggressively? I am inclined to argue that values and actions are always intertwined, and thus, if a company acts aggressively it has aggressive values, and vice versa.

Finally, the value of profit-making had a big role in determining which PIF members were more willing to bend the rules and which were not:

T: Well, are there, then, some kind of differences of emphasis, so that someone perhaps stresses profitability more and someone then perhaps stresses ethicality more, or something? P18: I believe that in terms of values as such, [the answer is] no, but how you apply them [the values] in practice, there lies the difference in emphasis. **T: How?** P18: Well, especially in those practical decisions, there it might be that profitability for someone is more important than ethicality, cooperation for someone is more important than innovativeness, so... So, you know, in practical situations you make your decisions ... --- **T: Do you have any good examples of this that might reveal some particularities?** --- P18: [Let's take] free product samples, for instance. It is commonly known that [according to the marketing regulations] in Finland you're allowed to give away one free product sample per each doctor per each year. Some of the firms interpret this rule very free-mindedly, some follow it very literally. Which shows that some of us are here in order to make a profit, ready to do something that, you know, that's not necessarily acceptable according to the [espoused] values of the firm but that's built into the [actual] culture of the firm, so that their profit-orientation is so powerful. (P18)

All in all, it is possible to distinguish two levels of cooperation regarding voluntary marketing control among PIF members (see Table 11). Cooperation seemed to work quite well at the top level, and PIF had been able to put together and agree on a new Code of Marketing which entered into force at the beginning of 2005. However, at the level of daily marketing practices, there were clear signs of disruption in cooperation. Many PIF members were prepared to break the marketing rules for their own benefit, even if their actions were likely to hurt the overall image of the whole industry.

Table 11. Cooperation and values relating to the voluntary control of marketing.

	Values			
	Profit-making	Ethicality in following marketing guidelines	Ethicality in following the law	Aggressiveness
Cooperation	+	-	+	-
Top-level acceptance of marketing guidelines +	+	(-)	+	(-)
Adherence to marketing guidelines in daily practice -	-	-	(+)	-

Looked at from the viewpoint of values, the following conclusions can be made about cooperation in the network: Firstly, congruence in the value of profit-making helped PIF members to agree on the new Code of Marketing; they understood that a bad image of the industry would hurt business *in the long run*. Secondly, at the level of marketing practices, congruence in profit-making tended to disrupt cooperation, because many PIF members were ready to break the Code of Marketing for their own short-term benefits, i.e. success at product sales, and sacrifice the long-term benefits of the whole industry, i.e. the industry's image.

Further, if we examine ethicality, it seems that PIF members approached this value in two ways. On the one hand, none of the members wanted to break or bend the law, and so, in terms of law-abidance, ethicality was a congruent value for PIF members. It facilitated cooperation at the top level in setting up the new Code of Marketing. It also made it easy to agree on a minimum level of acceptable marketing, since all members agreed that the law had to be followed. At a lower level of cooperation, in daily marketing practices, ethicality helped PIF member firms to observe the marketing guidelines as far as the minimum level of acceptable marketing was concerned, but the influence of this value was not nearly as strong as the influence of the value of making a profit. On the other hand, some PIF members were prepared to break or bend the Code of Marketing, whereas others were not; therefore, network members were *not* congruent in the value of ethicality in terms of following marketing rules. Even though non-congruence in this value had no significant effect on cooperation in establishing the new Code of Marketing, it did weaken cooperation at the practical level of daily marketing.

The aggressiveness of some of PIF member firms was related to both profit-making and ethicality. Some firms were more aggressive in their profit-orientation and in stretching the limits of ethicality. Further, aggressiveness was not a congruent value among PIF members, as some companies were more aggressive than others. At the top level of the cooperation, in preparing the new marketing code, the more aggressive companies argued that the marketing guidelines set by the industry itself should not be stricter than those prescribed by law. The less aggressive companies, in turn, argued that it was better if the guidelines were stricter than the law because of the long-term benefits of an improved industry image. Despite differences in their level of aggressiveness, PIF firms, nevertheless, managed to put together a new marketing code, because the long-term value of profit-making seemed to have greater influence in this respect than differences in members' aggressiveness. At a lower level of cooperation, namely in actual marketing practices, the aggressive attitude of some members led to weaker cooperation, as the more aggressive companies were more willing to bend the rules of the marketing guidelines than other members.

It can thus be concluded that the congruent value of profit-making facilitated cooperation in drawing up the new Code of Marketing, but disrupted cooperation in adherence to the guidelines in the daily marketing practice. Further, congruence in the value of ethicality in

following the industry's voluntary marketing guidelines did not significantly disrupt the acceptance of the new Code of Marketing, but it did decrease PIF members' adherence to the guidelines in daily marketing practice. The congruent value of ethicality in terms of law-abidance eased cooperation in establishing new marketing guidelines, but had less effect on adherence to the guidelines than the other values. Finally, incongruence on aggressiveness had no significant effect on the acceptance of the new code because the value of making a profit in the long run had a stronger impact. Yet, incongruence on aggressiveness did amplify the negative effect of the value of short-term profit-making in breaching the marketing rules.

4.4 Cooperation between research-based and generic companies

This section describes network cooperation between two different types of PIF member firms, research-based and generic pharmaceutical companies. First, I focus on their overall cooperativeness, and then turn to examine their cooperativeness in a specific case: namely, on the law on generic substitution.

4.4.1 Overall cooperation between research-based and generic companies

The interviews revealed an evident cooperative tension within PIF between its research-based and generic member firms. Their basic difference lies in their different business models:

PIF has this problem that it has extremely heterogeneous members. On the one hand, there's this research-based industry, and then, on the other hand, these others. --- The business concepts, business logic, and business goals and strategies, they're totally different in the research-based industry and these generic firms. (P17)

Research-based companies base their business on discovering, patenting, and marketing new medicines for the duration of the patents. Generic companies, in contrast, base their own business on marketing older medicines that no longer have patent protection. The industry-level tension between these two business models arises from the fact that the research-based industry gains when effective patent protection is as long as possible, whereas the generic industry gains if patent protection is as short as possible.

Interviewees representing these two competing businesses used certain basic arguments to plead their cases. Those in the research-based industry claimed that if the generic industry was favored, they could not keep investing in new drug discovery. Representatives of the generic industry, in turn, argued that if the research-based industry was favored, patients would end up paying more than they should for medicinal products:

It's clear that getting products to the market as soon as possible is our [research-based companies'] goal. This is clear. And also natural. This corresponds to [the situation in] all other industries. And, of course, it's related to our sales. But it's very obvious that when we see that a certain medicine is highly innovative so that it's significant from the viewpoint of treatment, then it is absolutely necessary to get it to the market. --- And, of course, money also plays a role in getting the product to the market as soon as possible, but it [getting the product to the market] also benefits the patient. But the thing is that... money is important in terms of reimbursements, and also to us taxpayers, of course, and also to the government, so there is this part too, of course. But at the same time, since we already have affordable products, it... We have these generic [products]... this levels the field. So I'd say that from society's viewpoint, in the situation we're in now where you have generic products, there is this tough, price-based competition, huge savings, and now if you bring in new, a bit more expensive medicines, more modern products... The situation today is fairly balanced. So, in my opinion... this is very natural. And the more you compare this to the old situation where generics didn't have the status they have today, which is increasingly happening all over Europe that the world changes... It's clear that it is important for the research-based industry to be able to introduce new products to the market, because now we're losing out to the generics... which is [nowadays] the name of the game and which we don't resist as such. But the equation is that, on the one hand, we lose out to the generics and, on the other hand, aren't able to launch new innovations on the market [and] this, of course, impoverishes the pharmaceutical industry at the aggregate level. (P5)

The great majority of PIF members represent research-based companies and only a few are generic companies. At the time of writing this report, none of PIF's board members or medicines policy committee members represented generic companies. During 1992-2004 there had been only one or two board or committee members who were purely representatives of the generic industry. This is no surprise, as members to the board and committees are chosen by democratic election, and research-based companies hold the majority of votes in PIF:

The power of influence inside PIF... it's equal to the combined voice of the big research-based companies. This is... theirs is the only voice that makes a difference. --- The generics' voice doesn't count at all. (P7)

For the few representatives of generic companies in the network the fact that it is difficult for them to get themselves heard was just something they had to live with:

You mentioned that in a way you tried to advance the issues of the generic firms, so that you'd have had a committee [for generic issues] or something like

that in PIF...? P15 [a representative of a generic company]: Yeah... so that these issues concerning generic firms... It would have been good that there'd have been more cooperation between the generic companies than there was. **T: Did you, then, have this feeling that... that decision-making [in PIF] wasn't perhaps very democratic, so that the issues of generic firms weren't taken into account, because they [generic firms] were small and insignificant?** P15: Well, yeah... There's surely a conflict with the research-based industry, which dominates there. I've understood this very well, so there isn't much [drama] in this. There were no surprises. --- ...If there are 12 members [on the board] and 11 of them represent the research-based industry, then the one [generic representative] won't have much impact. (P15)

Generic member companies had at one point tried to get their own representative onto PIF's board, but the research-based companies had outvoted them:

The generic [firms] did try to... was it a couple of years ago... to get a representative on the board [of PIF], but they didn't succeed, so... **T: Then, why didn't they succeed?** P16: Well, we voted on this thing, and in the end they didn't get enough votes. Which is probably more or less natural, because their number... There are a lot fewer of them compared to the research-based industry. There are so few of these firms. (P16)

[A certain generic firm] entered the Finnish market with a big investment, and along with this... their activity level rose and they wanted to have bigger influence on things. --- Their premise was that they wanted a seat on the board. But that would have been... They were told that we don't elect anyone to the board based on... It's only a recommendation that we choose board members from these big firms, but there's no obligation to this, and this also applies to... The thing is that you stand for election and then you either get chosen or don't get chosen as a board member. And the advice [to the generic firm] was that you have to choose a candidate for election and lobby for your candidate so that you'll get him or her on the board. So that there's no option to... that someone just wants to get a seat on the board and just gets appointed to the board... This, then, happens in these meetings... I mean in the annual meeting [of PIF]. --- If I remember correctly... was it a year ago... they [the generics] lost a board seat by a margin of just one single vote. **T: So they weren't that far [from getting a board seat]?** P18: No. So... It isn't like... Because we choose individuals, not companies [to the board]. And over the years we've had board members also from generic companies. They've [been] dropped [from the board] only in recent years. And they haven't dropped just because they represent generic firms, but because they don't... they haven't had enough support [from voters]. So... **T: So it's [a question of] democracy.** (P18)

However, even without much voice by the generic industry, PIF had officially chosen to stay in the middle of the road, emphasizing that a good balance between the research-based and generic industries benefited them both as well as patients and society as a whole:

The goal is, you know, that... --- ...that the industry... what the industry wants to emphasize is that there should be a balance between generic and novel products. **T: Yeah... Why is the balance a good thing...? What are you stressing there?** **P5:** Especially that the generics have... they must be able to operate... because it's normal, and it's the word of the day... that they have their right to operate in the market. And, like I mentioned earlier, you also need to have room for the new, innovative products... because with these [generics products] you save government funds, because they [generic products] are inexpensive, their reimbursements are lower, and then you have more money to... to reimburse new, innovative products. So you need to seek a balance. It can't be so that you're constantly pushing one end down and leaving ... that you don't give anything to the other end. So it is... This is the message that we give. That there's nothing wrong with generic drugs. (P5)

Indeed, there had been talk about splitting the association into two, so that the interests of research-based and generic companies would be driven in separate associations. Some interviewees still claimed that the industry was better off if the research-based and generic companies continued to work together as one association:

We would still gladly keep the generic pharmaceutical companies under the same roof [with research-based companies], because I find that we've accepted the principle that, according to the medicines policy of the European Union, there must be a balance between novel, patent protected medicines and generic medicines. We need both, because no government or country has the money to pay for all... I think it's fair that as long as your patent protection remains in effect, you get a good price [for the patent-protected products]... And then there'd be a well-developed generic market, which is based on free competition. And from the cost savings obtained from there [on the generic market] you could maintain these new medicines, and this would ensure that research goes on and that you have a good balance. (P10)

So we had these discussions about this... about this generic association, this association of firms that import generic drugs... --- There's been this challenge that... well... As a matter of fact, we discussed whether we, the generic firms, should stay with PIF or not. And I personally always thought that... I think that the association [PIF] will accomplish more as a unified pharmaceutical industry, because [research-based companies] also provide generic medicines. --- So I'd like to pose the question that... Is it good for the pharmaceutical industry as a whole if we aren't able to operate under one and the same association? (P13)

Some interviewees criticized PIF's "middle-of-the-road" approach to a balance between research-based and generic interests. They felt it sometimes led to indecisiveness and vagueness about PIF's ultimate goals. Whose business interests was PIF promoting? If it promoted the interests of both, what did that mean? One of the interviewees pondered this issue and came to the conclusion that PIF should be more clear about whose business interests it really stood for, or otherwise it would not be able to stand for either of the industries:

For some reason the association [PIF] is not able to see these fundamental issues that relate to the operational preconditions of the research-based industry, and [it fails to] speak for their interests and focuses more on the lowest possible common denominator among its members. These principal goals [of PIF] are good, but we need to clarify them. What are the goals, in concrete terms? When we talk about these goals we use a lot of big words, whereas we would really need to put the goals into concrete action. Isn't that what this business is all about? **T: Right... But is it possible, because as soon as you'd start to talk concretely about the interests of the research-based industry, then --- the generics would start to oppose this discussion, saying that "we can't speak for these issues"?** P17: That's where it would lead. (P17)

In fact, many of the research-based companies have a generic division or owned a generic subsidiary. Still, PIF did not deal with issues of importance to the generic industry, because the majority of its members were research-based companies and the business interests of the research-based and generic industries did not fit together:

We've tested whether the generic industry could be part of PIF, and the answer back then was that, no, they can't. And now it has happened, and still does happen, that some of these [research-based] members are also generic... they also have a generic business division. And now that some of them were members [of PIF], and when their operations turned more generic, then these members, for the part of their generic operations, they simply had to admit that this association wouldn't consider their issues. So also we had these members... One board member in particular, who wanted to speak also for generic issues, and to take this viewpoint also into account, well... We just gently quieted this discussion down. So we really didn't have this discussion [on generic issues]. And this was because... it [the generic interest] simply isn't a genuine [area of interest in PIF]... Because [earlier] we were just pondering how we'd manage to cope in a situation where the authorities were favoring the generic option. So even if some of us would take it [the generic business] as a side business, it can't be their main business. (P20)

Hence, most of the issues promoted by PIF would only benefit the research-based industry:

How would you describe cooperation within the board, in concrete terms... like what are cooperation and activities based on? P15 [a representative of a generic company]: Well, they are based on the fact that we have quite a lot of common interests. Like... Quick authorization process for new medicines, and getting reimbursements quickly... These are, you know, heavily in the interest of the research-based industry. And most of the members represent the research-based industry. **T: Right, yeah... So then, is it [the association] in a way a useless body for the generics, because you don't... These common interests are perhaps not the ones that the generics want to speak for?** P15: Well, they aren't... And yes, it can be a little frustrating for the generic industry. --- Those issues that we speak for [as an association], they're not necessarily in the generics' best interest.

Therefore, despite PIF's top-level emphasis on a balance between the research-based and generic industries, a strong juxtaposition seemed to exist between these member firms, and generic members had started to withdraw from PIF:

It would be better if, well... if there'd be just one association, which would somehow look for a compromise, that you'd seek the industry's... you know... the industry's common denominator, which you could support together as an industry. Otherwise we'll be in a situation where the opinions [of generic and research-based members] are too far apart so that certain issues are so important for one [group] of companies, which will then lead to [a situation in which], that you'd operate better as two separate associations... Which is, in fact, the case in most European countries that you have separate associations for the research-based pharmaceutical industry and for the generic industry. So... I find that this is the direction we are heading for also in Finland, so that we will clarify the situation. **T: So the association is splitting [into two], or...?** P18: Yes... Yeah. We are splitting. Yeah. (P18)

The recent entry of foreign generic companies into Finland along with legislative decisions favoring the generic industry – such as the law on generic substitution – have widened the gap between the research-based and the generic industry. Despite PIF's desire to keep the companies together, this may prove impossible:

Over the last couple of years we've started to have this splitting up of the industry into generic and research-based industries, which is a new phenomenon. **T: Right. Has this... this phenomenon emerged along with the law on generic substitution? Or, along with legislative changes?** P18: Well, it emerged even before. In a way it... In Finland... Maybe because the market [in Finland] has been underdeveloped, we've only had a few firms, and then when... when [a certain big

European generic company] came into Finland with its big investments, they then wanted to have a bigger influence over things. --- So this situation has escalated only in maybe the last two years, so that we've now started to talk more about these two different types of firms. (P18)

We've had representatives of a generic company on the committee [of pricing and reimbursement issues] for several years, and things have gone smoothly, but now, along with the generic substitution... this new law and these new instructions and regulations... things have started to change [cooperation has become more difficult], because more and more generic firms started their operations in Finland, and they started to operate stronger... well, more aggressively and stronger [in Finland]. (P5)

Generally PIF members had mixed emotions about the balance between the research-based and the generic industry. On the one hand, the pharmaceutical industry emphasized the need for a balance between the two, but, on the other hand, in reality the business interests of the two industries were often too far apart to enable them to work together. This gap had widened even further when generic companies recently had established their own interest group to support the law on generic substitution. This interest group was a registered association currently known as *Rinnakkaislääketeollisuus ry*, freely translated as "Generic Pharma Industry".

I also asked the interviewees whether there were any value conflicts behind the juxtaposition between research-based and generic companies. Some interviewees were quick to answer that generic companies were out there just to make a profit regardless of what was in the best interest of the whole industry:

For instance, if you take these generic firms versus other firms... Have you any idea of their values, of whether their values differ somehow from each other? Like, for instance... Their business models are clearly different, but...? P13: Yes, their business models are different, and... well... It's a fact that... there are generic firms that... that, particularly... for whom profit-making is the only kind of... It is, in fact, some sort of milking... milking the industry in the sense that they don't do product development... (P13)

However, I pressed on and asked whether their values were truly different, or whether it was just a question of a difference in their business models. Now I started to get different kind of answers. The general consensus seemed to be that the values of research-based and generic

firms were more or less the same and that the only difference between them was in their business models. Profit-making, for example, was a value equally embraced by both:

So you feel this is evident also in their values? I mean that their [generic companies'] business model is surely different in that they sell medicines that have run out of patent protection... But do you feel that this is seen also in their values, that they are somehow more profit-oriented? P13: Well... Of course, both [generic and research-based companies] are profit-oriented... So that some do research in order to develop new medicines and others don't. But, well... As a matter of fact, it often happens that most... that the research-based industry has its own generic business as well... So that... Both can be traced back to the same original source [laughter]... --- So they [generic companies] think of profit-making the same way as the research-based industry. All the same, both of them look at shareholder value. (P13)

Moreover, research-based and generic PIF members had more in common than just the value of profit-making. They also shared values like patient care and social responsibility, although they defined the content of these values differently due to their differing business models:

So, do generic firms, then, have different values from the rest of the firms? P13: Generic firms strive for... they strive to introduce inexpensive medicines, and in this respect you can say that they emphasize the patients' viewpoint or society's viewpoint. (P13)

Might they [generic companies] have had other values [than the rest of the companies]? P20: Well, they might have had --- the emphasis on the interest of patients to always get the cheapest drugs. Even if this hurts the research-based industry. **T: This may be a slightly leading question at this point, but is it so that... Is this value – of looking after patients' interests – the same [for both generic and research-based companies], and only the business models... the justifications behind these values... the way you present the patients' viewpoint... are different? But the values, then, are the same?** P20: The values are the same. Yes. (P20)

But there were also interviewees who argued that some of the generic companies were more aggressive than the research-based industry:

There is this tension between the generics and the others... --- Are there some sort of values-related issues behind this tension? Can it [the tension] be interpreted from this perspective? P9: Well, maybe... Maybe it's so that the situation has, in a way, escalated due to the actions of some of the [generic] actors,

the newer actors, whose basic idea is that this... this generic business and gaining [more] market share aggressively by utilizing the new law on generic substitution and... and all these elements. (P9)

The interviews, however, did not warrant the conclusion that generic companies in general would have been more aggressive than research-based companies; many research-based companies were aggressive, too.

All in all, from the viewpoint of cooperation, the tension between research-based and generic companies weakened cooperation in the network, even though PIF officially emphasized a balance between the two. The fact that the business interests of the two industries collide makes cooperation very difficult (see Table 12).

Table 12. Cooperation and values between research-based and generic companies.

	Values			
	Profit-making	Patient care	Social responsibility	Aggressiveness
Cooperation	+	+	+	?
Research-based vs. generic companies	-	(+)	(+)	?

If we look at the tension from the viewpoint of values, we can conclude that the tension was not related to value *incongruence* – it was only that the business models of these two industries are so different, whereas their values were congruent. Profit-making, for instance, was a congruent value for both types of companies. The two industries seemed to have many other values in common as well; both spoke for patient care and social responsibility, even though they defined these differently based on their differing business models.

In view of the relationship between values and cooperation, the congruent value of profit-making contributed to the unsuccessfulness of cooperation between the two types of firms.

Companies had difficulties cooperating with each other, because their business models and business interests were at odds with each other.

The congruent values of patient care and social responsibility worked in the other direction, having positive influence on cooperation. Both values supported the aim at PIF's top level of maintaining a balance between the two industries. However, the congruent profit-making value had a stronger negative influence on cooperativeness between companies than the other two values.

Although a few interviewees claimed that some of the generic member firms were more aggressive players in the market than research-based companies, I cannot conclude that this applied to PIF's generic members in general or that it had a significant influence on cooperation in this particular subcase of cooperation; this uncertainty is indicated by a question mark (“?”) in Table 12. Further investigation into this matter might reveal whether aggressiveness actually was a congruent value among research-based and generic firms and whether it was linked to the unsuccessfulness of cooperation.

In summary, the congruent value of making a profit had a disrupting influence on cooperation between research-based and generic companies, because it made them defend their own respective business interests. Congruence in the values of patient care and social responsibility could help to keep the two industries together and enable them to cooperate better, if their business interests did not collide so heavily due to the current legislative situation.

4.4.2 Cooperation on the law on generic substitution

At the beginning of 2002 the Ministry of Social Affairs and Health (MSAH) announced that it was going to pass a new law on “generic substitution” to promote the cost-efficient use of generic medicines. The law had been prepared behind closed doors, and when it was finally brought to the attention of PIF and other interest groups they were given very little time to submit their comments on the law and propose changes. In the end PIF failed to change the content of the law, and so it was passed practically without changes.

The new law on generic substitution came into effect at the beginning of April 2003. Until then, Finnish patients had simply bought the medicines that their doctors had prescribed; price had no major effect on the choice of medicine. Now, with the new law, pharmacies were obliged to substitute a medicine prescribed by a doctor with another similar product within a price range determined by the new law, unless either the doctor or the patient specifically prohibited the substitution. With its introduction the law increased price-based competition on generic medicines dramatically and lowered their prices equally dramatically. (STM 2002) The details of the terms of substitutability are outside the scope of this study; it suffices to say that the new law concerned generic products only, not products that were still patent-protected.

When MSAH originally brought the law on generic substitution on the table, it was clear that it would be passed in one form or another. PIF, thus, was left with the option to try to change its content. However, despite PIF's efforts, the law was passed largely in its original form:

This [PIF's] committee on price and reimbursement issues knew very well that it [the law on generic substitution] would come sooner or later. The purpose was merely to have it [the law on generic substitution] introduced in a milder form... which did not happen in the end. (P15)

So, in this sense, generic substitution... Ok, it was a must, so... We tried to influence it, but in the end we weren't able to make a difference. So... We all knew that, you know, that it [the law on generic substitution] would come... So, in this sense, it came as no shock to us. (P16)

Research-based and generic companies, quite naturally, had a different overall stance to the law on generic substitution, as it affected their businesses differently. For all research-based companies whose products had already lost or were soon losing their patent protection, the law meant a more or less guaranteed decrease in sales and profits, while for most generic companies it meant an opportunity to increase sales:

If you've got medicines you yourself have developed, and you end up having to take a beating because of generic substitution, if you, for instance, have to lower your prices, or something else like that, then... well... this is a bad thing for you. But if you are a generic marketer, you may be able to increase your profits. (P16)

However, although the new law offered an opportunity to generic companies, its downside was that it drove them into fierce, price-based competition. This was why some of the already established generic companies in Finland did not support the law in its originally introduced form, but spoke for a more lenient form of generic substitution:

I mean, I got the idea back then, when they were preparing the law on generic substitution, that these already established generic firms in Finland, that they didn't support generic substitution, because it also drove them into a [harder] competitive situation, or they knew that the market would become... I mean that there'd be more competitors and prices would drop... So, in a way, it [generic substitution] was a threat to them as well, because they already had a presence here [in Finland]. --- So at this stage [when the law on generic substitution was being introduced]... at least I have the feeling that... that they [already established generic companies] didn't support it [generic substitution] and perhaps felt that they were in the same boat on this matter as research-based firms. (P6)

Would it have mattered to you if it [the law on generic substitution] had had a more lenient form than its current form? P15 [a representative of an already established generic company]: I think a more lenient form would have been better for us than this current one. This [current form] is quite wild... **T: Yeah. It has surely led to a purely price-based competition.** P15: Right. And I think that we're starting to reach the limits of profitability... of these generic firms... I very much doubt they can be profitable. I doubt this very much. --- **T: So you didn't have too much interest in having this current form of obligatory generic substitution introduced [in Finland]?** P15: No. This wasn't at all on our list of goals, that... that we'd end up in this sort of extreme situation. (P15)

Since neither research-based companies nor established generic companies supported the new law, they managed to find some common ground when it came to lobbying for changes to the law:

[A representative of an already established generic company]: At the time the industry was lobbying for generic substitution, we did get our voice heard. And we got to influence the overall setting, so that... that the stance of the association's [PIF's] board on generic substitution was not that negative, as soon as we started to piece together the situation as a whole. --- ...Our general goal was to change the [generic substitution] system so that --- [if] the two-year mandatory waiting period would get shorter [concurrently with the introduction of the law on generic substitution], this would be a good thing for all of us [both generic and research-based companies]. (P15)

However, most of the new, more aggressive generic companies agreed neither with research-based nor with established generic companies. Thus, there was still a gap between PIF's research-based members and some of the generic companies.

To sum up, there were three groups of firms with different interests as to the law on generic substitution: research-based companies and established generic companies, both of which were against the new law, and the new, more aggressive generic companies, which were in favor of it.

At this point it is good to make a note of the main reason why PIF in the end failed to change the content of the law on generic substitution: MSAH was compelled to introduce a law on generic substitution, because public expenditure into medicinal costs had increased steeply, and so the law had to be passed quickly, leaving little room for changes. Thus, PIF's failure to influence its content was largely *unrelated* to the problems in cooperation between the three different groups of firms.

About this generic substitution and the process of drafting the law, and all that... --- Why weren't you successful at getting your voice heard in the process of drafting the law? Was it due to your own mistakes, or...? P13: Well... Maybe we weren't successful because, you know... MSAH was just forced to do something to control the medicinal costs to society. (P13)

A further reason for PIF's unsuccessful lobbying against this particular law was that its message to the authorities was not focused. This was because PIF was given very little time to familiarize itself with the law and comment on it before it was passed, and this spurred confusion, even panic:

Well, at that stage, when we first heard that this [generic substitution] was coming up... In hindsight, we should've acted more radically. We should've immediately organized a crisis meeting with a task force, which would have had the job of... of trying to involve more people, to do more extensive background work, and to decide on our stance, so that... that what our goals are, what is our main focus, and then what is our secondary focus if we're not successful with the main focus. Back then... in August when we usually have our yearly planning meeting... we changed the agenda of the planning meeting completely, and only concentrated on this issue [generic substitution]. So we did act, but were we radical enough...? --- We weren't able to put together a unified, swift, shared policy of what we, as an industry, wanted. And we didn't go ahead with a unified front, but gave these mixed messages. The

activity itself was probably the biggest that the association [PIF] has ever carried out, so we lobbied very actively, and afterwards we've heard comments [from the authorities] that we were even too active. Which just tells me that we reached the right level [of activity], because this tells me that we'd been noticed. But then we also got these comments telling that we still had much to learn, because we had given mixed messages. So, in a way, we should be able to find the... like always... the common denominator, and stick to it. And we should not try to lobby for other issues together with the main issue, if and when we're dealing with such a big issue like the generic substitution... but we should've focused... we should've stuck to our focus in order to achieve something. (P18)

Maybe sometimes we had more enthusiasm there [in lobbying for changes to the law on generic substitution] than coordination, you know, and lack of focus in communication. --- [We lacked] this coordination, like... Were PIF's and the member firms' messages unified, you know...? So we were perhaps trying to learn something new there, so that... And we realized that... that perhaps our message was too broad, after all. (P11)

Then, when we had this, that hey, that generic substitution is coming, that they [the authorities] are working on this new law... we maybe panicked a bit. Some of us didn't understand it [the new situation] and started to emphasize all these small issues in particular, and make much of them, and... And sometimes I felt that we'd lost a sense of what was most important, and started to highlight such issues, that... that hey, this is an important issue, and that is also an important issue, and remember this and remember that, and we should also discuss this, and... --- And the end result was that the law on generic substitution finally came into force in pretty much the same format than the authorities originally introduced it. So we didn't get any changes [made] to it. Only some small, cosmetic changes. Whereas, if we hadn't perhaps panicked, and if we had thought about what was most important to us... which we now lost sight of... that, what this mandatory substitution means in a situation where we [only] have short-term documentation protection, and only a methods patent which can be circumvented. And had we realized this, we would have perhaps noticed that, hey, that this is what's most important to us... that the National Agency of Medicines believes that our patents really cover our patent-protected medicines [which the methods patent actually does not do in all cases]... And [had we understood this] it would have been easy for us to make a difference. (P10)

Also, it did not help that PIF was ill-prepared for the sudden introduction of the law by MSAH at the beginning 2002:

Yes, in fact we did have these discussions about whether we did all we could've done in the sense that we were, in a way, caught by surprise... we got caught by surprise... And that we were busy renewing the medicines reimbursement system at the same

time that the Ministry of Social Affairs and Health was planning this, like, revolutionary introduction of generic substitution to Finland. (P13)

Well, the next challenge for us was this generic substitution. And... This is also an interesting story in how we got to hear about it [the law on generic substitution] at such a late stage in the process of introducing the law. --- And did this happen because... Did this happen because our ears were still too small? Because we aren't listening actively, and then, when we hear something we're not keen enough to learn more about these things, but are too busy talking about the issues on our own agenda so that we're not really listening actively? (P18)

It did not really matter whether PIF members were unified or not in lobbying against the law on generic substitution. The law was going to be passed regardless of PIF's actions because MSAH was compelled to pass the law due to economic pressures. However, the dispute over the law brought to surface the tension between the research-based and established generic companies versus the new, more aggressive generic companies (see Table 13).

Table 13. Cooperation and values related to the law on generic substitution.

	Values	
		Profit-making
Cooperation		+
Research-based and established generic companies vs. new generic companies	-	-

Table 13 sums up the dispute between the three groups of companies from the viewpoint of values. Again, we can conclude that the congruent profit-making value determined how network members approached the law on generic substitution and how they cooperated together. Research-based and established generic members cooperated well and together opposed the new law, because it threatened their business interests, whereas new, more aggressive generic companies did not cooperate with the others, since they were in favor of the law because it gave them new business opportunities.

4.5 Cooperation between Orion and foreign research-based companies

This section describes cooperation between Orion, a unique company among PIF members, and foreign, research-based companies. I first examine the overall successfulness of cooperation between these firms, and then move on to study a specific case of cooperation, namely a PR campaign to raise the image of the pharmaceutical industry.

4.5.1 Overall successfulness of cooperation

An example of cooperative tension in the PIF network mentioned frequently in the interviews was the occasional tension between Orion Oyj, a leading Finnish pharmaceutical manufacturer and marketer, and foreign, research-based pharmaceutical companies:

Sometimes there's been some tension, so that... that we've wondered if Orion has taken a path of its own and the international firms their own path, so that we haven't always known whether we're going ahead with a unified front, or whether, after all, we've got this setting that there's this domestic pharmaceutical industry, on the one hand, and the international pharmaceutical industry, on the other hand. (P13)

We've had quite a bit of arm-wrestling with Orion on different issues over the years. Orion, which has historically been "the great Finn"... and is, in fact, today the only Finnish pharmaceutical firm... Orion has easily taken a position in the opposition. I mean that there have been a couple of issues which Orion has forced us to put aside. (P14)

But about the friction that we've had over the years... Well, at least in recent years there's been an atmosphere that there are these foreign companies as compared to these domestics. And domestic firms today... well... there is, of course, above all, Orion. (P16)

If we look at the big one, I mean Orion, and then these big international firms, it became quite evident at some point that the situation was a bit tricky, because Orion

naturally is a small company on a global scale, so that it can't invest as much into research and development [as international firms]. --- So this makes it necessary to take into account both these domestic interests and then these interests of international companies. (P4)

Orion was, and continues to be, a unique company among PIF members in many respects. To begin with, it has been the only large *Finnish* pharmaceutical company in the market in recent years. Although there are some smaller Finnish companies in the market as well, Orion is clearly the only one with a significant market share. Secondly, Orion has been the predominant player in the Finnish pharmaceutical market for decades, although its dominance has declined over the years. And finally, Orion's product portfolio is markedly different from the product portfolios of other PIF members.

Orion's long predominance of the Finnish pharmaceutical market began to decline in the mid-1990s. In 1993, Orion dominated the market with a market share of 29.2 percent (1 155 MFIM), while the remaining domestic competitors together held a market share of 11.1 percent (437 MFIM) and foreign competitors a market share of 59.7 percent (2 362 MFIM). In 1999, Orion still had the number one position, but its market share had dropped to 19.0 percent (1 273 MFIM). By the end of 2004, Orion's share of the market was down to 10.1 percent (182.7 MEUR, ca. 1100 MFIM), it had lost its status as market leader to Pfizer, and it had become the only large domestic company operating in the Finnish pharmaceutical market.

The decline of Orion's market share meant that its power of influence in the market and inside PIF also diminished. As a result, some other member firms – especially the big foreign, research-based companies – were able to take over much of the decision-making power in PIF:

Orion originally had a 30 percent market share in Finland, and there used to be this golden rule that Orion would always have a seat on the board [of PIF]. And Orion did long hold the chairman's seat on the PIF board. But then, when Orion, you know... When the situation changed systematically, the power relations changed so that international firms eventually started to control decision-making [in PIF]. They just started pushing decisions through. **T: Who started pushing decisions through? P7:** Well, there was this clique of firms... that consisted of these big, international firms. (P7)

Orion did have a strong influence there [in PIF], so that... During Orion's reign it was difficult to make decisions that would have been unfavorable from Orion's viewpoint. And as an individual firm Orion did, you know, have a lot of power of influence in PIF, all the way up until the late nineties. And then, at the end of the nineties, the power structure changed and the international firms started participating more. (P7)

Nevertheless, even after the turn of the millennium Orion continued to be an important member for PIF because it still held a large share of the Finnish pharmaceutical market and, to the public and the authorities, it represented the voice of the *Finnish* pharmaceutical industry:

This situation could be seen so that Orion might end up leaving the association, but do you think that would make any sense? --- P14: Well... I think that it would be good if Orion stayed here [as a member of PIF]. --- Orion still has this old label, that... I mean that the politicians and our other negotiation partners attach this positive label to Orion, which doesn't wear off... --- So if there's an industry event where you invite the CEOs of all pharmaceutical companies, then [Orion's CEO] will sit there on the seat of honor. So it [Orion] is still this kind of a... a strong domestic pharmaceutical firm... despite the fact it isn't that significant [anymore]. Orion hasn't made news with any major international breakthrough products, but still it's got this label... And I think that the label sticks there pretty tight. (P14)

In fact, Orion's power of influence continued to be so high that it could have vetoed most PIF decisions or force a consensus among PIF members, had it wanted to:

Ultimately, Orion's strongest lever is in the fact that Orion is still the only genuine Finland-based actor in the pharmaceutical industry. Others are more or less sales departments [of international companies], despite being big and strong. And... And... well... It's certainly in the best interest of PIF that its members are able to reach a consensus... a consensus, instead of Orion saying that "you can keep your industry association to yourself, because Orion can contact ministries and different actors whenever it wants to." And here lies the last resort of Orion, which... which is generally accepted and acknowledged, so that the association is, in a way, incapacitated without Orion. Because then it would simply be a pharmaceutical importers' association, and then... and then... **T: Its nature would change?** P9: Its nature would change drastically. And this is... Orion has, in certain instances, used this lever at the negotiation table when PIF members have talked about what is important for the association. And this has then led to the understanding that, yes, we have to... we've got to be able to compromise. (P9)

Orion differs from the other PIF members also in that its product portfolio is much more versatile than any of its competitors. Orion sells hundreds of different items ranging from patent-protected to generic products and from self-care medicines to prescription drugs. Whereas the foreign research-based companies operating in Finland mostly import and sell new, patent-protected medicines, Orion's sales rest largely on a great variety of older generic products. In addition, it does invest in new product development as well:

So Orion clearly has those two footings. One is their own product development, from where they can access international markets via their partners. But on the other hand, their sales... their domestic, Finland-based sales rest on these older products. They have, you know, this incredible assortment [of products]. --- So Finland's basic medicine assortment is provided by Orion. (P14)

Orion's business model, thus, could be described as a mix of research-based and generic industries. This difference in business models between Orion and foreign, research-based companies seemed to be the primary cause for tension between them:

What things are there in the background (between Orion and foreign, research-based companies) that... that cause this fighting? P16: Well, in the background there's that, well... Ok... The research-based firms have, you know, they have always developed their own medicines. So they have sacrificed huge sums of money, time, and so on [to develop their own medicines]. And, then again, Orion --- Orion's operating practice is different. So that... They, too, have these so-called own innovations, their own inventions, but there are also a lot of products that they've licensed from other firms. So, in this sense, some of the other firms may consider Orion also as a generic firm. And this is where their [Orion's and other companies'] interests may conflict. (P16)

Some of the tension between Orion and these foreign companies originated, however, from earlier times when Orion had taken advantage of the peculiar patent legislation in Finland which enabled the company to circumvent patent protection of new medicines by altering the production method of the patent-protected product. Actually, up until 1995, Finnish patent legislation had made it possible to copy a patent-protected drug by creating a new method for its production – the legislation did not protect the end product, only its production method. This enabled Orion to make a good profit by producing and selling “branded” generic products:

Orion has never been [purely] generic, because despite bringing generic medicines to the Finnish market, Orion always... they priced the products at the prices of patent-protected medicines. So they [the products] were so-called branded generics. --- Even though they were generic, their prices were many times higher than of [purely] generic products. --- Then, in 1995, when we got the product patent [as opposed to only a methods patent], then this opportunity disappeared, in principle. But Orion still rode on with this image [of being a research-based company] for ten more years, and only recently has Orion started to lose it [the image]. (P7)

It's commonly known that Orion has been, in a way, a very strong copier of medicines. There's no point in denying this. So, because the methods patent in Finland allowed this kind of behavior that you could copy a certain product if you were able to invent a new method to produce this certain product... If you go back to the eighties, when domestic origin was highly regarded and when society favored domestic products... Orion was quick to make these [copied products]. --- And Orion monitored the market very tightly, and when new products were introduced to the market, and they found another way to produce these products, or... say... substance A, they produced and sold them [the products or the substance] with their own brand. And this was good for Orion, because they hadn't, you know, invested practically anything into research and development of these products, they had invested only in developing or finding a method to produce them, so... And in Finland... The authorities usually awarded the same price for Orion's copied products as for the original products, so... So you can guess that Orion was able to sell and market these products with a fairly reasonable profit margin. And they have always had a very powerful... good marketing capability. And also the home-base advantage... So all this led to the fact that the big firms didn't all necessarily love Orion. (P4)

The different business models of Orion and these foreign, research-based companies raised tension between them, and Orion had sometimes taken a strong stance against the others if it felt that its business interests were threatened:

Orion's been this... you know... to some extent, this... how should I say it... like a drag [to be pulled to get] things moving forward more quickly and aggressively. Orion has taken a much more cautious stance [to moving things forward], and... And of course, Orion is a well-maintained business, and they have wanted to keep things the way they are. So that they've resisted anything that could, in principle, hurt their business. (P14)

However, despite the tension, Orion and the foreign companies appeared to get along well on most issues on PIF's agenda. Orion had, for instance, stood fairly unanimously together with all other member firms behind PIF's arguments on most PRSI issues and also behind its

Code of Marketing. From this perspective, cooperation between Orion and the foreign, research-based companies was *mostly* successful.

We can conclude that despite the tension between Orion and the foreign companies due to their differing business models, they had been able to cooperate successfully on a majority of issues (see Table 14). Cooperation had been unsuccessful only in cases where their business interests collided heavily. And if we go back to the discussion on PIF's values and cooperation concerning PRSI issues (Section 4.2) and voluntary control of marketing of medicinal products (Section 4.3), we can conclude that the congruent value of profit-making helped Orion and foreign, research-based companies to find a common ground on most of the big issues on the agenda.

Table 14. Cooperation and values between Orion and foreign, research-based companies.

		Values
		Profit-making
Cooperation		+
Cooperation on most issues on PIF's agenda	+	+ / (-)

To sum up, congruence in the value of profit-making usually facilitated cooperation between Orion and foreign, research-based companies, but on some infrequent occasions when their business interests collided the congruent value of profit-making caused obvious tension between the companies. This occasional tension between Orion and the foreign, research-based companies is the topic of the next section.

4.5.2 *Unsuccessful cooperation on one of PIF's PR campaigns*

Although the cooperation between Orion and the foreign, research-based players in the Finnish market had been successful for the most part, there was one exception that was mentioned by many interviewees. Some years ago Orion had been strongly opposed to a PR campaign put together by PIF. Originally, this campaign was intended to highlight the benefits of medicines to society and to lift the image of the industry in the eyes of the public. However, in Orion's view, the PR campaign gave too much attention to the benefits of new, patent-protected medicines, ignoring the benefits of older, generic drugs. This takes us right back to the tension arising from the different business models of Orion and the research-based companies:

[When PIF was] preparing this [PR campaign], Orion simply informed us that... Orion wasn't very active back when we discussed this, when the whole project started, but at the end of the project Orion gave this message which most likely originated from their top management, that Orion won't be part of this [campaign]. **T: What was the... What were the interests that fought against each other there?** P14: I can't remember... Would it have been that Orion, which is a... still is a... and has been, for god only knows how long... that Orion sells these generic medicines? --- This project [the PR campaign] was a project of the research-based companies, so Orion felt it [the campaign] would work against its own interests. So that you can't promote these research-based medicines, these new innovations, so that these are what society should favor, but [Orion felt] we should take into account the whole array of medicines. (P14)

When the industry built this advertising campaign, which was, in a way, based on promoting innovative medicines, or at least the campaign had this tone when you looked at it as a whole, so Orion fought back there, and the campaign didn't proceed. Because it was not in their [Orion's] best interests. (P15)

In terms of these PR campaigns, among others, we've had from time to time these cases of criticism that... that when we highlighted this, you know, this... not only the international pharmaceutical industry but also these... these innovative products in the campaigns... so this led to us receiving a comment from "the big Finn" [Orion] that, well, that the campaign isn't good, because it was done like this and that... --- **What things are there in the background [between Orion and foreign, research-based companies] that... that cause this fighting?** P16: Well, in the background there's that, well... Ok... The research-based firms have, you know, they have always developed their own medicines. So they have sacrificed huge sums of money, time, and so on [to develop their own medicines]. And, then again, Orion --- Orion's operating practice is different. So that... They, too, have these so-called own

innovations, their own inventions, but there are also a lot of products that they've licensed from other firms. So, in this sense, some of the other firms may consider Orion also as a generic firm. And this is where their [Orion's and other companies'] interests may conflict. And this conflict then occurred in connection with this, well, this one PR campaign. Was it a year or two ago... So that the words that we used in this campaign, they didn't match Orion's interests too well. **T: So... You could say that the business interests [of Orion and the foreign, research-based companies] didn't match up there?** P16: Yes. Yeah.

...And in this connection, we had had this committee for public relations which had designed this marketing campaign... So in this marketing campaign, whose leader was a representative of a research-based company... So this campaign so strongly highlighted the need to get new medicines to patients, that Orion, especially, whose product portfolio... which had back then and still has a lot of difficulties to get new, licensed products to be launched on the Finnish market... --- So it [the campaign message] crossed Orion's pain threshold. --- So the campaign was never carried out. **T: Right... So I have understood... that the campaign was torpedoed altogether. That the campaign was ready in a way but it was never aired back then.** P20: It was never aired, and this was mainly because... because Orion's executives came to the conclusion that the campaign was not in their best interests. (P20)

To be more precise, the quarrel about the PR campaign relates to the different views of Orion and the foreign research-based companies regarding the relationship between new and older medicines. Whereas the foreign companies liked to emphasize the benefits brought along by novel medicines, Orion wanted to promote a balance between new and older medicines, instead of favoring one over the other:

[A representative of Orion]: Orion's viewpoint has clearly been that we've never wanted to put forward the idea that these so-called new innovations are the one and only saving grace for us, so that we should use all our resources to promote them. From Orion's viewpoint... we've always had this idea that we emphasize a balance, so that you also need these basic medicines... So that there's a need to find a balance where we also acknowledge the value of these basic medicines. And so that we don't push down the prices, especially of these basic products... because, after all, the basic products are not the reason for the increasing overall costs. The increasing overall costs are driven by these new innovations which have been priced higher than the older medicines. And when you introduce these new innovations, this increases... this is what keeps the pharmaceutical industry growing. And... Orion's perspective is clear, that if all resources are invested into these new innovations, then you'll unnecessarily trample down these so-called older, basic medicines. (P9)

Orion's motive to promote a balance between new and older medicines was based on two elements: the fact that its product portfolio included both new and older medicines, and the fact that the Finnish market represented a large share of its sales. It was, therefore, in Orion's best interest to see to it that the Finnish health care market develops in a good balance, which benefits not only Orion but also the society at large:

So why is Orion behind this balance, that there is a need for both these older and these newer medicines? P9 [a representative of Orion]: --- This has to do with the fact that... the kind of company we are. And there are two elements here. The first one has to do with the content of our product portfolio, and the other one with how important this [Finnish] market is for us. And well... Shall I elaborate first on the latter one... well... This [the Finnish market] is our home market and still represents our largest single market area. And still today we get about 35 percent of our sales from this market. And, like I said earlier, if we compare this to all the other players in Finland, which are these kinds of sales and marketing departments... If you look at this from the viewpoint of some [big] American or British [company], then you'll see that Finland, after all, is a fairly remote and marginal market for them... and well, from the viewpoint of their operations... of course, it [the Finnish market] as such is an important market for them, I don't mean to dismiss that, but as a whole it's almost like a statistical error to them whether Finland is included in their sales figures or not. So they can be somewhat less sentimental in their approach to this market which... which we call Finland. And then, the second viewpoint is our product portfolio, which, I'd say, was built along with the development of the Finnish health care system and its needs, and along with changes in patent legislation, reimbursement systems, and elsewhere. So we have products for both the... older side [of medicines] --- as well as the innovative side. So... From our point of view and in our understanding of the needs of the Finnish health care system, we have a very much... Of course, this is also a self-interested viewpoint, but it happens to meet the needs of this society pretty well. So these are the reasons why it has been appropriate for us to do this [speak for a balance]. (P9)

All in all, if we look at the tension between Orion and the foreign players in terms of cooperation on the PR campaign, cooperation obviously was unsuccessful: the campaign was never aired, because these companies could not agree on its content (see Table 15).

From the viewpoint of values, the above story shows that the congruent value of profit-making was what made Orion reject the PR campaign. Orion claimed that the campaign overemphasized the business interests of research-based companies and, thus, hurt its own.

Although profit-making appears to be the value that had the greatest influence on Orion's decision to go against the PR campaign, still it was not the only value that disrupted cooperation between the companies. Orion maintained that a balanced relationship between novel and older medicines also agreed with Finland's national social interests; in other words, Orion placed more emphasis on the value of corporate social responsibility, at least with respect to Finnish society, than foreign research-based companies did in this subcase of cooperation. Yet, it would be unfair to conclude that incongruence in the value of social responsibility was high – hence the parentheses for social responsibility in Table 15.

Table 15. Cooperation and values related to PIF's PR campaign.

Cooperation	Values	
	Profit-making +	Social responsibility (-)
Cooperation on PR campaign -	-	-

To conclude, congruence in the value of profit-making together with slight *incongruence* in the value of corporate social responsibility disrupted cooperation between Orion and the foreign research-based companies on the PR campaign.

4.6 Summary and discussion of empirical findings

Having described the empirical findings of the current study in Sections 4.1 – 4.5, my next step is to summarize and discuss these findings. I start with a comparison of the espoused and actual values of PIF and its members. I go on to sum up the influence of the values on cooperation within PIF in the various subcases. Then I turn to values-driven management and its actual and potential utilization within the PIF network. Finally, I reflect on the validity of the findings in light of a follow-up discussion with two of the original interviewees.

4.6.1 Espoused values versus actual values in PIF

Section 4.1 concluded that the espoused values of PIF member firms were highly congruent at the top level – a conclusion that is not surprising given that companies, especially within a single industry, often have similarities in their values (Gordon 1991; Puohiniemi 2003, 14-17). However, there were differences in the way companies applied the espoused values in their daily practice. The most important espoused value among PIF members was profit-making, but not at any cost. Other congruent espoused values were ethicality and social responsibility. Aggressiveness seemed to be the only incongruent value among network members.

If we compare companies' espoused values to the actual values (see Table 16), we can say that, overall, their espoused and actual values were fairly close to each other. Among the actual values that surfaced in all of the 10 subcases of cooperation, profit-making was a highly congruent and also the most influential value, as could be expected from the discussion on espoused values. Hence, there was high congruence between the espoused and actual value of making a profit.

Table 16. Summary of values and cooperation in PIF.

Cooperation on PRSI issues					
		Profit-making	Social responsibility		
		+	+		
A	General acceptance of agenda for changing PRSI legislation	+	+		
B	Increased pressure to cut medicine costs	+	0		
C	Changes in legislation 1992-2004	+	0		
D	Competing business interests of PIF members regarding reimbursements	-	0		
Cooperation on voluntary control of medicinal marketing					
		Profit-making	Ethicality in following marketing guidelines	Ethicality in following the law	Aggressiveness
		+	-	+	-
E	Top-level acceptance of marketing guidelines	+	(-)	+	(-)
F	Adherence to marketing guidelines in daily practice	-	-	(+)	-
Cooperation between generic and research-based companies					
		Profit-making	Patient care	Social responsibility	Aggressiveness
		+	+	+	?
G	Research-based vs. generic companies	-	(+)	(+)	?
H	Research-based and established generic companies vs. new generic companies	-	0	0	0
Cooperation between Orion and foreign research-based companies					
		Profit-making	Social responsibility		
		+	(-)		
I	Cooperation on most issues on PIF's agenda	+ / (-)	0		
J	Cooperation on PR campaign	-	-		

Note: Zero ("0") denotes zero, or neutral, influence on the successfulness of network cooperation.

Ethicality and social responsibility did not emerge as values in all subcases of cooperation. The value of ethicality surfaced in subcases E and F and social responsibility in A, G and J. What is interesting is that ethicality and social responsibility were congruent values in some cases and *incongruent* values in others. Additionally, these values could be seen to have different meanings, or contents, in different cases. For instance, if we look at subcase A, social responsibility seems to be a congruent value, whereas in subcase J, it seems to be an incongruent value. And, if we examine cases E and F, ethicality figures either as a congruent or as an incongruent value depending on how it is defined.

Thus, the actual values of ethicality and social responsibility in PIF did not fully correspond to the same espoused values. This confirms the theoretical prediction that actual values are rarely fully congruent with espoused values (e.g. Meyerson and Martin 1987; Martin and Meyerson 1988). Individual informants and/or companies may, for example, be too optimistic or pessimistic in evaluating how well their actual values correspond to their espoused values. However, the picture of PIF's espoused values drawn by the interviewees matched quite well with reality. Hence, it seems that the descriptions given by interviewees of their espoused values were fairly honest and that they were not trying to offer a patched-up version of actual reality.

It can thus be concluded that *the content of a given value and its congruence or incongruence are context-dependent*. Hence, if we are interested in the content of a certain value or in its congruence or incongruence, we need to define the context we want to focus on, because values surface differently in different contexts.

The value of aggressiveness was present in some of the cases (E, F and G), but the small amount of empirical data on this value does not warrant extensive conclusions on its correspondence to the espoused value of aggressiveness.

4.6.2 *Connections between values and network cooperation in PIF*

As shown in Table 16, cooperation was successful in five subcases (A, B, C, E and I) and unsuccessful in the other five (D, F, G, H and J).

If we look at the five subcases of successful cooperation from the viewpoint of values, we can conclude that the congruent value of making a profit facilitated cooperation in each case. In three subcases, B, C and I, profit-making was the only value influencing cooperation. In one case (A), congruence in the value of social responsibility also furthered cooperation. Finally, case E is interesting in terms of the mixed influence of ethicality. In this subcase, congruence in the value of ethicality related to law abidance helped cooperation, and thus amplified the positive influence of profit-making, but *incongruence* in ethicality related to following the marketing guidelines, as well as *incongruence* in aggressiveness, worked against successful cooperation. Yet, the negative influence of these two values was overshadowed by the positive influence of the congruent values of profit-making and ethicality in following the law.

Now, if we approach the five cases of *unsuccessful* cooperation from the viewpoint of values, it is evident that congruence in the value of profit-making had a negative influence on cooperation in all five cases. In two subcases, D and H, profit-making was the only value influencing cooperation. In one of the other cases (F), *incongruence* both in the values of ethicality in following the marketing guidelines and aggressiveness added to the negative influence of the congruent value of making a profit. Congruence in ethicality in following the law had a positive impact on cooperation here, but this positive influence was abated by the negative influence of the congruent value of profit-making and *incongruence* in the values of ethicality in terms of following the marketing guidelines and of aggressiveness. In case G, the congruent values of social responsibility and patient care (which could also be seen as a subcategory of social responsibility) had a favorable effect on cooperation, but this was overshadowed by the negative influence of the congruent value of profit-making. The *incongruent* value of aggressiveness in case G may have had some negative influence on cooperation, but the small amount of data on this value does not warrant further conclusions.

And finally, in case J, the *incongruent* value of social responsibility strengthened the negative effect of the congruent value of making a profit.

Thus, we can conclude that congruence in the value of profit-making had the greatest influence over the successfulness of cooperation among PIF members in each one of the ten subcases. Whenever companies had mutual business interests, the value of profit-making facilitated cooperation and when companies had competing business interests, this same value had a negative impact on cooperation. The rest of the values either added to, weakened, or were abated by the influence of the value of making a profit.

Table 17 summarizes the congruence or incongruence of individual values and their influence on cooperation within the PIF network. Making a profit was a congruent value in all cases, but its influence on cooperation was positive in some cases and negative in others. There was both congruence and incongruence among PIF members in the values of social responsibility and ethicality; in cases where they were congruent, they had a positive influence, and when incongruent, a negative influence on cooperation. Aggressiveness surfaced in only one case as an incongruent value, and had a negative influence on cooperation. There were no cases in which an incongruent value would have had a positive impact on network cooperation.

Table 17. Summary of values and their influence on cooperation.

Value	Influence on network cooperation	
	Positive	Negative
<i>Congruent</i>	<ul style="list-style-type: none"> • Profit-making (A, B, C, E, I) • Social responsibility (A, G) • Ethicality (E, F) 	<ul style="list-style-type: none"> • Profit-making (D, F, G, H, J)
<i>Incongruent</i>		<ul style="list-style-type: none"> • Social responsibility (J) • Ethicality (E, F) • Aggressiveness (E, F)

Although I found no cases of an incongruent value with a positive influence on cooperation, this does not mean that such a case were impossible. This can be illustrated by an imaginary example of cooperation between a for-profit company, e.g. a pharmaceutical company, and a non-profit organization, e.g. a patient interest group, on voluntary control of marketing of medicinal products. Profit-making would most likely be an *incongruent* value between these two parties; the for-profit company would certainly appreciate profit-making while the non-profit organization is likely to look down on such a value. However, it is quite conceivable that cooperation between these parties on voluntary control of medicinal marketing would be successful, because such control would benefit the for-profit company by lifting its image and ultimately its business and, on the other hand, also please the non-profit organization by cutting down on the pharmaceutical companies' unwanted spending on marketing.

The above findings indicate that *the influence of a certain value and its congruence or incongruence on the successfulness of cooperation is dependent on the context of cooperation*: any given value, whether congruent or incongruent, can have either a negative or a positive impact on cooperation depending on the different aspects of the cooperative situation.

A further conclusion can be drawn by examining how the influence of a certain value in a certain subcase changed over time. The influence of a value had changed at least in cases A, B, C, G and H. In cases A, B and C the positive influence of the value of making a profit grew stronger as PIF members came to realize over the years that their business interests were being threatened and that they had to cooperate better to protect their interests. In cases G and H the negative influence of profit-making as a value strengthened for the same reason, as PIF members realized that they had to defend their individual business interests, which, of course, had a negative effect on their cooperation. Thus, the general conclusion here is that the strength of the impact of a given value can change over time if some aspects of the context change.

4.6.3 *Potential for values-driven management in PIF*

I came to the conclusion in Section 4.1.2 that, although most individual PIF members applied values-driven management within their own organizations, PIF itself had decided *not* to utilize values-driven management at the network level. PIF's argument was that having both company-level and network-level values might be too confusing for the network firms and that it only had very limited chances to influence its members' values. This fits well with the theoretical discussion on network manageability, namely that network members can exert only limited control over the network (Håkansson and Ford 2002). Nevertheless, this section sketches out some potential ways in which PIF might apply values-driven management in the network.

Values-driven management was defined in Section 2.3.3, drawing on the paradigm of strong cultures, as a process whereby companies (1) develop a strategically important set of core values for themselves and (2) implement an action plan to increase value congruence around these core values at all organizational levels. This was what PIF members claimed to be doing at the individual company level. However, the empirical analysis indicated that this kind of values-driven management would not be productive at the network level, as noted in the previous section, because *any given value, whether congruent or incongruent, can have either a negative or a positive impact on cooperation depending on the context.*

Let us look at, for instance, the value of profit-making and its relation to cooperation in PIF. In some cases, congruence in this value had a positive effect on cooperation, whereas in some other cases it had a negative effect on cooperation. If PIF were to use values-driven management in the traditional way, and (1) set the value of profit-making as a core value and then (2) implement an action plan to increase value congruence around this value, it would in some cases have a positive and in some cases a negative effect on network cooperation. It could perhaps help to define the content of the value of profit-making as solely a network-level value, which would imply the unlikely situation that individual companies would not seek their own profit but only network-level profits. However, obviously, as the network is composed of individual for-profit companies having their own individual values, the individual business interests of these companies would almost certainly always surpass the

business interests of the network level, making it difficult to lift profit-making as a value from the organizational level to the network level.

However, values-driven management might be applicable and useful to PIF at the network level if we look beyond the narrow definition of values-driven management and think of it as *a means by which management can increase awareness and understanding of organizational values within an organization in order to sensitize and prepare organizational members for the positive and negative effects that values may have on the functioning of the organization* (see again Section 2.3.3). Accordingly, let us take another look at the value of profit-making and its relation to PIF's cooperation, this time in light of the new definition of values-driven management.

Even though PIF cannot force its members to accept a certain set of core values, it can make them aware of the effects of their value congruence or incongruence on the successfulness of cooperation within the network. For instance, it might be useful for PIF to (1) make a list of different cases, or tasks, of cooperation (such as cases A-J in the empirical analysis of this study), (2) point out those cases in which congruence in the value of profit-making has relevance, (3) analyze whether the influence of profit-making as a value is positive or negative in each case, and finally (4) make all network members aware of how and why the value of profit-making either had a positive or a negative influence on cooperation in each case.

After this process PIF could decide whether it will leave things as they are, or whether it will try to reduce the negative effects and/or amplify the positive effects of this value on cooperation. In any event, PIF would benefit from a better understanding of how the values of its members help or hinder their cooperation in the network.

I wish to point out here that steps 1-3 of the above procedure actually correspond to the analytical process of the current study. Hence, this study can serve as an example of how the new definition of network-level values-driven management could be applied in practice.

4.6.4 Validation of empirical findings: Follow-up discussion

The validity of this study is determined partly by how well its findings are supported by data-driven argumentation that passes the scrutiny of the informants and how well it gives a fair account of their voices (see the discussion on validity in Section 3.4). The current section aims to offer evidence of this type of validity.

Accordingly, to validate the empirical findings of this study I had a follow-up discussion with two of the original interviewees: the general director of PIF and the director of PIF's interest supervision. The purpose of this follow-up was to discuss the empirical findings (i.e. cases A-J in Table 16) and to evaluate whether they represented a fair and correct account of reality. I chose these two interviewees because they had worked for PIF throughout the observation period of this study (1992–2004), and because at least one of them had been present at all PIF board meetings and/or meetings of the pricing and reimbursement committee over this period. None of the other interviewees had such longstanding and deep involvement in PIF's activities.

First, we discussed the espoused and actual values of the network members, namely profit-making, ethicality, social responsibility, and aggressiveness. Both interviewees agreed that these values corresponded well to the espoused and actual values of PIF members. They also agreed that profit-making was the number one value for PIF member firms and that the other values were complementary to making a profit. The only value that raised some debate was aggressiveness. The interviewees noted that aggressiveness as a term differed from the others, suggesting that aggressiveness should perhaps be defined as a “mode of operation” rather than as a “value”. Nevertheless, based on the empirical analysis I contend that differences in aggressiveness (and non-aggressiveness) of PIF members was specifically determined by differences in their values – not by differences in their “modes of operation”. Moreover, there is naturally a difference between aggressiveness as a value and the other values in that aggressiveness is an instrumental value whereas the others represent more terminal values.

We then discussed the utilization of network-level values-driven management in PIF. Both interviewees confirmed the empirical finding that PIF had decided against the use of values-

driven management at the network level, because of the confusion that the existence of company-level and network-level values might cause among its members.

However, the follow-up discussion revealed that PIF *did* actually apply values-driven management at the network level *if* we define values-driven management according to the extended definition presented in the previous section. Let me explain this further: Network-level values-driven management can be seen, for example, in PIF's response to some of the behavior of its members that PIF staff deemed too aggressively profit-oriented. The more aggressive network members often demanded that PIF should lobby for their individual business interests in ways that would jeopardize the common, long-term interests of the industry. Thus, to dampen the overly aggressive profit orientation of some of its members, PIF often reminded them that the pharmaceutical industry as a whole needed find a balance between profit-orientation and social responsibility, or it would jeopardize its functional relationship with the authorities as well as its long-term business interests. By doing this PIF was, in effect, applying network-level values-driven management; it was trying to control the overly aggressive profit-orientation of some of its members by stressing the importance of another value, namely social responsibility. This notion validates my earlier conclusion that network-level values-driven management is potentially usable *if* we adopt the extended definition of values-driven management.

Finally, we discussed each of the different subcases (A-J) and the congruent and incongruent values connected to them. The interviewees agreed that the case descriptions represented reality fairly accurately. Case J was the only one to raise further discussion. Both interviewees thought the description of case J was accurate for the most part in that cooperation had indeed been unsuccessful and the value of profit-making had indeed contributed to the unsuccessfulness of network cooperation. What they disagreed on, however, was my conclusion that social responsibility was an incongruent value among PIF members. They argued that members placed more or less the same weight on the values of profit-making and social responsibility, so that both values were congruent. Following this argumentation it would be possible to conclude that the value of social responsibility in case J was a congruent value that may have had a positive influence on network cooperation. However, I choose to keep to the original version of the case description and my conclusions

regarding case J, because, in my view, they represent the actual interview data better than the alternative version.

Thus, the follow-up discussion with these two study participants provides support to the view that my empirical findings are, for the most part, valid.

5 CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

5.1 Brief summary of research purpose and empirical results

The purpose of the current study was to increase our understanding of the concept of network-level values-driven management and its usability in actual practice. I approached this task by means of the following research questions:

1. What is the influence of value congruence on the successfulness of network cooperation?
2. What are the key characteristics of network-level values-driven management?
3. What are the potential means of values-driven management at the network level?

I set off to seek answers to these research questions through an empirical, embedded single-case study of a Finnish network of pharmaceutical companies called Pharma Industry Finland (PIF). I began the analysis by first exploring the espoused values of PIF and its member firms and by studying how congruent or incongruent their espoused values were. I

further examined whether PIF and its members utilized values-driven management, and if so, in what ways. After this I went on to analyze the influence of actual value congruence among PIF members on the successfulness of network cooperation by studying four subcases of cooperation: (1) cooperation on pricing, reimbursement and sickness insurance issues, (2) cooperation on voluntary control of medicinal marketing, (3) cooperation between research-based and generic pharmaceutical companies, and (4) cooperation between a leading Finnish firm, Orion, and foreign research-based companies.

The major empirical findings of this analysis process were the following:

1. Profit-making was by far the most significant value for PIF members, both in terms of espoused and actual values. Other organizational values which emerged in the interviews – ethicality, social responsibility, and aggressiveness – were also important, but less significant than the value of making a profit.
2. The actual values of PIF members showed good correspondence with their espoused values.
3. The congruence or incongruence and the content of PIF members' values varied from one studied subcase to another. The value of profit-making proved to be a congruent value for PIF members in all cases of cooperation, but the congruence or incongruence of the other values depended on the particular characteristics of the subcase in question. Some values even had a different content, or meaning, depending on the case.
4. At least one of the detected values had some influence on the successfulness of PIF cooperation in each subcase. The value of making a profit had a significant impact in all of the cases. The other three values sometimes did and sometimes did not affect the successfulness of cooperation within the network.
5. The specific aspects and characteristics of each cooperative case determined how a certain value and its congruence or incongruence influenced the successfulness of cooperation. In some cases profit-making had a positive but in some other cases a negative influence on network cooperation. The other values had either a positive, a

negative, or no influence at all on the successfulness of cooperation depending on the characteristics of the case.

These empirical findings provide the grounds for my theoretical conclusions in Section 5.2. After discussing the theoretical conclusions, I move on to reflect on their managerial implications in Section 5.3, and discuss the limitations of this study in Section 5.4. Finally, this research report concludes with a few ideas for future research in Section 5.5.

5.2 Theoretical conclusions

The empirical findings presented above, and summarized in Section 4.6, provide the basis upon which I will now build my theoretical conclusions. The conclusions are presented and discussed in Sections 5.2.1 – 5.2.4, then summarized in Section 5.2.5, and finally discussed in light of prior theory in Section 5.2.6.

5.2.1 Context-dependency of the influence of values on cooperation

The first general conclusion drawn from the empirical findings is that *values and their congruence or incongruence do influence the successfulness of cooperation in networks and that the impact may be either positive or negative* (see Figure 7). The fact that network members' values have an effect on the successfulness of network cooperation is a very basic and, admittedly, fairly unsurprising conclusion. Yet, it is a point well worth stressing, because establishing this connection between organizational values and network cooperation is a first step towards the argument that “network-level values-driven management” is a plausible concept. This is discussed in the forthcoming sections.

The second general conclusion is that *the contextual, i.e. situational and case-dependent, characteristics of network cooperation determine the type of influence that values will have on cooperation*. In other words, the direction and strength of the influence of a certain value

and its congruence on cooperation is dependent on the situational and case-dependent aspects of that cooperation.

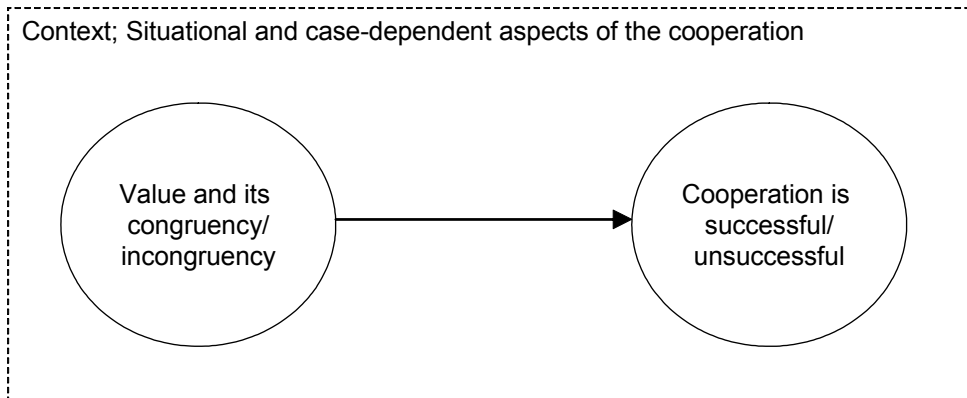


Figure 7. Impact of context on the influence of values on cooperation.

These two general findings shed light especially on RQ1: *What is the influence of value congruence on the successfulness of network cooperation?* They also offer some support to the theoretical proposition that values and value congruence or incongruence do have an influence on organizational behavior and cooperation, and that various situational, case-dependent aspects of organizational behavior determine the direction and strength of that influence (Meglino and Ravlin 1998; Sagie et al. 1996; Connor and Becker 1994). This proposition was illustrated in Figure 2 on page 33.

However, as already pointed out, values do not *always* have impact on the successfulness of cooperation (see also Meglino and Ravlin 1998). For instance, in many cases of PIF cooperation it seemed that only the value of profit-making had some impact on cooperation whereas the other organizational values had none. Cooperation can also be successful or unsuccessful independently of *any* of the values of the network members.

Further, it is good to remember that although the value of making a profit was the most important value affecting cooperation within PIF, it may still not be the foremost value in

other, less profit-oriented networks. In a network similar to PIF but consisting of humanitarian organizations, for example, the value of ethicality might have a stronger influence on network cooperation than the value of profit-making.

5.2.2 New definition for network-level values-driven management

In the previous section I argued that values can influence network cooperation either positively or negatively, or their influence can even be non-existent, depending on the contextual characteristics of a particular cooperative situation. What does this mean in terms of network-level values-driven management: is it plausible as a concept? And, if so, how should network-level values-driven management be defined in light of the empirical findings of this study?

Based on a review of the literature, drawing on the paradigm of strong cultures, I defined values-driven management as a process whereby an organization (1) develops a strategically important set of core values for itself and (2) implements an action plan to increase congruence of these core values at all organizational levels (e.g. Humble et al. 1994; Ledford et al. 1995; O'Reilly and Chatman 1996). Based on the empirical study, however, we can now establish that this definition of values-driven management is too narrow as such to be applied in strategic networks. Its inapplicability is evident considering that greater value congruency can have both a positive *and* a negative influence on the success of network cooperation, as found in this study. It makes no sense to simply increase value congruence, if this may also lead to negative consequences.

However, because values and their congruence do seem to influence the successfulness of network cooperation, I would argue that values-driven management is, indeed, applicable also at the network level *if* we put aside the narrow definition and adopt a new, wider definition of values-driven management. This broader definition should be built on the idea that since values do affect network cooperation and since this influence differs from one cooperative context to another, it is possible (1) to analyze how values influence the successfulness of network cooperation in a certain cooperative context and, then, (2) to use

the gained knowledge for improving the successfulness of cooperation in that particular context.

Based on my analysis of the PIF network and on the fragmentation and differentiation perspectives on organizational cultures (Martin and Meyerson 1988; Meyerson and Martin 1987), I proposed both in Section 2.3.3 and in Section 4.6.3 that values-driven management in networks could be defined as *a means by which management can increase an awareness and understanding of organizational values in a network in order to sensitize and prepare the network members for the positive and the negative effects that values may have on network cooperation*. This definition provides an answer to RQ2: *What are the key characteristics of network-level values-driven management?*

This extended definition of network-level values-driven management acknowledges that the goal of managerial intervention is not to increase value congruence among network members, but rather to increase their awareness and understanding of their own values and those of the other network members. This awareness and understanding will then sensitize and prepare them for the positive as well as the negative effects of value-driven activities within the network.

Accordingly, I propose that values-driven management of a network according to the above, wider definition might proceed as follows:

1. To begin with, identify the contexts and domains of cooperation related to the critical cooperative tasks in the network.
2. Identify the most significant values likely to surface in these tasks.
3. Analyze whether – and how – these values are congruent or incongruent among the network members in relation to these particular tasks, and how the context or characteristics of the tasks can affect congruence or incongruence of these values.
4. Analyze how the values and their congruency or incongruence affect the successfulness of cooperation in completing the tasks.

-
5. Make network members understand and be aware of how the values and their congruence or incongruence affect the successfulness of cooperation in completing the tasks.

An increased awareness and understanding of values and their influence on cooperation will most likely be enough to improve cooperation in most networks, since the sheer knowledge and awareness of possible problems will help network member firms to avoid such problems and take corrective measures. However, should the network choose to do so, and assuming it has the necessary power of influence, it can follow up the process by the following activity:

6. Amplify the positive and reduce the negative impacts of the network values (for suggestions how this might be done, see Section 5.2.4).

One of the options by which the network could try to amplify or reduce the influence of values on network cooperation would be by actually *changing* some of the values of its individual members in order to achieve successful cooperation. However, as indicated by previous research (e.g. Håkansson and Ford 2002) and confirmed by the findings of this study, I would argue that it is almost impossible for a network to change its members' values, because the network – or its hub organization – usually has only limited control over the network members.

The limited possibilities of network control over its members' values was evident also in the empirical case of the current study. The network members agreed that PIF could neither set nor control their values, because the network itself exists for its members – not vice versa. A network might be able to change its members' values or the network-level values only if its power of influence were very strong indeed and its members' autonomy close to nil – but we may question whether such a network can be called a network at all or whether it is actually a case of a hierarchy (Håkansson and Ford 2002).

5.2.3 Analytical tools for network-level values-driven management

This section presents a few analytical tools for the practice of network-level values-driven management, especially in response to RQ3: *What are the potential means of network-level values-driven management?*

The network-level values-driven management process was presented in the previous section. The first step in the values-driven management process – identifying the critical tasks of the network – is outside the scope of the current study. Good sourcebooks on network management and analysis of the critical tasks of a network are available to interested readers (see e.g. Möller et al. 2004; Ollus et al. 1998; Vesalainen 2002). For the remaining steps of the process (steps 2–6), however, I will propose a number of tools which I came up with in the course of this study.

Table 16 (see p. 178) illustrates one of the analytical tools developed during the study, which I used in my empirical analysis. The table summarizes the results of the analysis. I first identified the critical subcases of network cooperation within PIF, analyzed the values that surfaced in each particular case, and finally determined the influence of each value on the successfulness of cooperation in each case. I also drew conclusions about the potential ways in which values-driven management might be applied in PIF, based on Table 16. A table like this would also serve as a quick and convenient way to pass the information on to the members of a network, if required.

In Table 18 (see next page) I suggest another tool for the task-dependent analysis of values and their influence on the successfulness of cooperation. An example of how I used this tool in the empirical analysis of this study was presented in Table 17 (see p. 181). In these tables (Tables 17 and 18) there are two rows (congruent and incongruent values) and two columns (positive and negative influence on network cooperation) which together make four cells (cells I-IV). The idea is to fill out the table separately for each critical task within the network; this helps to analyze how values influence network cooperation in each task. Alternatively, the table can be filled out simultaneously for all of the network's critical tasks and then indicate the case or cases which each value relates to, as I did in Table 17.

Table 18. Task-dependent analysis of values and cooperation in a network.

		Influence on network cooperation	
		<i>Positive</i>	<i>Negative</i>
Value			
<i>Congruent</i>	I	II	
<i>Incongruent</i>	III	IV	

Cell I in Table 18 comprises congruent values with a positive influence on network cooperation, while cell II comprises values that are congruent but have a negative influence on cooperation. For instance, in PIF’s case, the congruent value of profit-making would be in cell I in each case of successful cooperation and in cell II in each case of unsuccessful cooperation. Incongruent values with a positive influence would fall into cell III and those with a negative influence into cell IV.

In PIF cooperation, there were a couple of examples of incongruent values that had a negative influence on cooperation in the network that would fall into cell IV. However, there were no cases in which an incongruent value would have had a positive influence on cooperation, which left cell III empty in this particular network. However, it is *theoretically* quite possible for an incongruent value to be positively associated with network cooperation – as shown by the imaginary example of cooperation between a for-profit and a non-profit organization in Section 4.6.2.

At this point it is good to remember that not all network values will surface in all of the different tasks or cooperative cases, and even if they did, their influence on cooperation could be neutral, i.e. neither positive nor negative. Such values should be excluded from the analysis.

Moreover, the need to manage the cooperative situation is not similar in all of the cells (see Table 19). In cells I and III, cooperation can be improved by *amplifying* the influence of values, whereas in cells II and IV, it can be improved by *reducing* the influence of values.

Table 19. Different modes of values-driven management in different situations.

		Influence on network cooperation	
		<i>Positive</i>	<i>Negative</i>
Value			
<i>Congruent</i>	I Amplify the influence of values	II Reduce the influence of values	
<i>Incongruent</i>	III Amplify the influence of values	IV Reduce the influence of values	

In cases where a congruent value has a positive influence (cell I), the job of the management is to amplify this influence by promoting congruence in the value in question. This is a fairly simple and straightforward measure: all the network management needs to do is to employ “standard” tools of values-driven management, by socializing the member firms by means such as programs that clarify and communicate values within the network, values-driven training and support systems, and values-driven reward systems (Chatman 1991; Posner et

al. 1985; O'Reilly and Chatman 1996). The network may also make use of its collective experiences of success: when its congruent espoused values continuously lead to desired results, more and more network members are likely to buy into or start to idealize those values, which will ultimately lead to favorable results (Gagliardi 1986).

However, the managerial task grows more difficult if we look at the other cases in cells II, III or IV. When a congruent value has a negative impact on cooperation (cell II), the network management should *not* encourage congruence in that value. In other words, the management should refrain from using any of the “standard” tools of values-driven management. Instead, it might try to *reduce* value congruence in such cases, although this may prove very difficult, because, as suggested earlier, a network only has limited control over its members’ values.

Whenever an *incongruent* value has a negative influence on cooperation (cell IV), it might be advantageous to attempt to increase value congruence by trying to move a certain value from cell IV into cell I. However, even if the management succeeded in raising value congruence, the effects of such an operation should be carefully analyzed beforehand, because congruence might also have a negative instead of the desired positive effect – that is, the value might move from cell IV to cell II instead of cell I.

Finally, in cases where a certain value is *incongruent* and its influence on cooperation is positive (cell III), the management is certainly faced with a dilemma. A “standard” process of values-driven management will hardly help here, of course. Should the management encourage value *incongruence* instead? This might, or might not, help; it could well be that there exists a status quo between the *incongruent* values of the network members that actually has a positive impact on cooperation, and were this status quo to change either towards value congruence or even further incongruence, the final result could be even worse than the original status quo.

Another way of determining the usefulness of values-driven management in different situations is to analyze each value in terms of the strength and direction of its influence on cooperation (see Table 20). The two rows in the table indicate the strength of a value’s influence on cooperation (strong or weak) and the two columns indicate the direction of its

influence (positive or negative). Each of the four cells (cells A-D) can include congruent as well as incongruent values.

Table 20. Tool for analyzing the strength and direction of the influence of values.

		Influence of a certain value on network cooperation	
		<i>Positive</i>	<i>Negative</i>
Influence of a certain value on network cooperation	<i>Strong</i>	A	B
	<i>Weak</i>	C	D

Cells A and B include values with a strong influence on cooperation; thus, values-driven management is especially useful in cases of cooperation that fall into these two cells. Since cell A covers values with a strong positive impact on cooperation, the management's target here is to amplify the influence of these values – whether congruent or incongruent. Values with a strong negative influence on cooperation fall into cell B, and the target here would be to reduce the effects of these congruent or incongruent values. Cells C and D consist of values that have only a weak influence on cooperation, which makes these two cells only secondary targets of values-driven management. Nonetheless, the management should be aware of the fact that the influence of a certain value may grow stronger if the characteristics of the situation change: any value can shift over time from cell C to cell A or from cell D to cell B.

The analytical tools presented above can be used to analyze the different tasks of a network of firms and to determine how values influence their cooperation in each task. Still, a mere description with the analytical tools does not indicate *how* cooperation in the different cooperative situations could be improved. This is the topic of the next section.

5.2.4 Strategies for network-level values-driven management

This section offers some tentative ideas on how to approach the actual practice of network-level values-driven management. This discussion provides further answers to RQ3: *What are the potential means of network-level values-driven management?*

Let us first deconstruct the links between a value and its congruence or incongruence and the successfulness of network cooperation. The tentative model in Figure 8 is based on the theoretical model of the antecedents and outcomes of values suggested by Meglino and Ravlin (1998), Sagie et al. (1996), and Connor and Becker (1994) (see Figure 2 on p. 33), as well as on ideas that emerged in the course of the empirical analysis of the PIF network. The focus in the model is on the influence of a certain value and its degree of congruence on a specific case of cooperation. This certain value will be influenced by other values within the network, and value congruence or incongruence is an outcome of values of the network members. The value and its congruence or incongruence, in turn, influence the successfulness of cooperation in the network. Finally, the relationship between the value and the successfulness of cooperation is affected by a number of factors, such as incentive and selection systems; hierarchy and authority relations; planning, control and information systems; communication, decision and negotiation mechanisms; integration and linking roles and units; common staff; social coordination and control; and public support and infrastructure (Grandori and Soda 1995). Some of these antecedent and moderating factors to successful cooperation are easier for managers to control than others.

The most obvious strategy for changing the impact of a certain value on cooperation is to try to change – to strengthen, weaken, or eliminate – either the value itself or its congruence or incongruence. However, Figure 8 shows that there are also other possible strategies for changing the influence of a value and its congruence on network cooperation. For instance, it

is possible to make use of *other values* in the network to change how that given value influences cooperation. A network may also try to change the congruence or incongruence of a value by *selecting members* that have the “right” kind of values. Further, a network may also *select its areas of cooperation* by focusing on such areas where a certain value helps to improve cooperation. It is also possible to employ *moderators* to alter the way a value influences network cooperation.

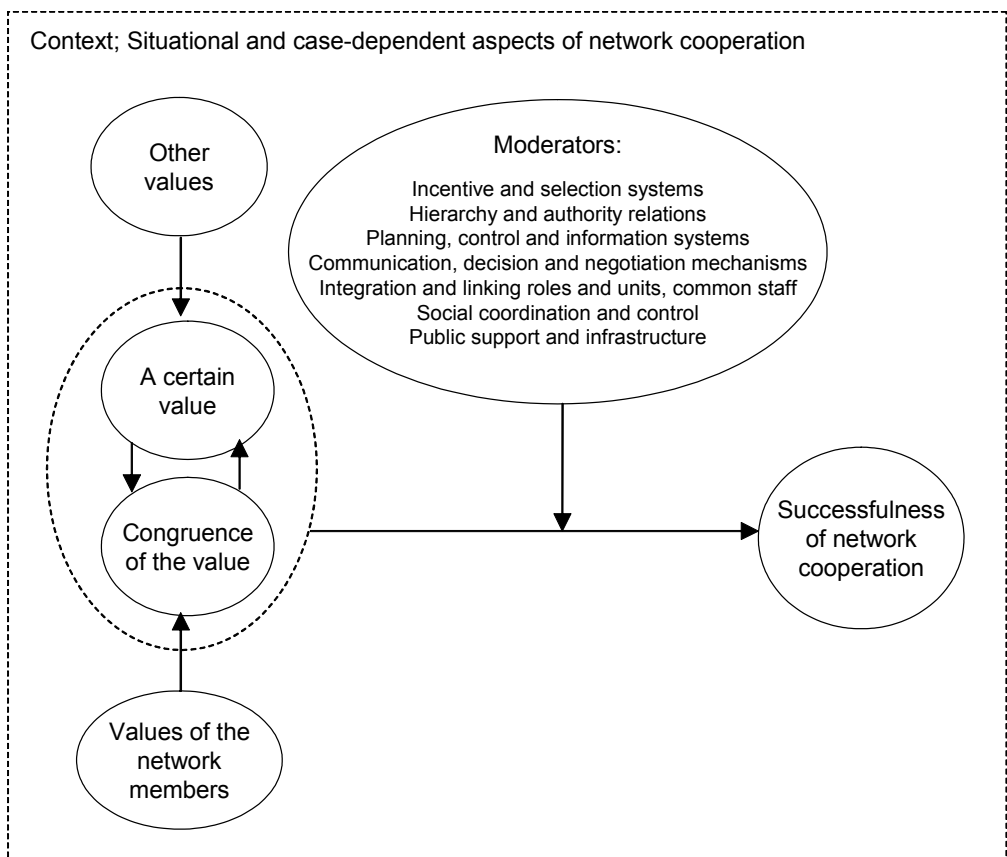


Figure 8. Factors linked to amplifying or reducing of the influence of values.

Now, bearing in mind that the ultimate goal of network-level values-driven management is to improve network cooperation (1) by amplifying the positive impacts of values and/or (2) by reducing the negative impacts of values, it is possible to construct the following table of the basic strategies of network-level values-driven management (see Table 21).

Table 21. Basic strategies of network-level values-driven management.

Strategies of network-level values-driven management	Goal of network-level values-driven management	
	<i>Amplifying the influence of a certain value</i>	<i>Reducing the influence of a certain value</i>
<i>Strategy of changing a certain value and/or its congruency</i>	<ul style="list-style-type: none"> • Encourage the use of the value and/or amplify its congruency 	<ul style="list-style-type: none"> • Weaken the use of the value and/or weaken its congruency
<i>Strategy of using other values</i>	<ul style="list-style-type: none"> • Search for and highlight existing values or introduce new values that reinforce the influence of the value 	<ul style="list-style-type: none"> • Search for and highlight existing values or introduce new values that neutralize the influence of the value
<i>Strategy of network member selection</i>	<ul style="list-style-type: none"> • Select such network members whose values have a positive influence on cooperation 	<ul style="list-style-type: none"> • Drop such network members whose values have a negative influence on cooperation
<i>Strategy of case selection</i>	<ul style="list-style-type: none"> • Search for new areas of cooperation where the value has positive influence on cooperation 	<ul style="list-style-type: none"> • Eliminate those areas of cooperation where the value has a negative influence on cooperation
<i>Strategy of using moderators</i>	<ul style="list-style-type: none"> • Use such means of network management that reinforce the influence of the value 	<ul style="list-style-type: none"> • Use such means of network management that neutralize the influence of the value

Let us start with the *strategy of changing a certain value and/or its congruence*. A network may try to amplify or reduce the influence of a certain value by changing the value itself and/or by changing its congruence or incongruence. For instance, it can try to strengthen, weaken, or eliminate the value. Additionally, or alternatively, it can make an effort to increase or lower the value's congruence. However, the empirical findings of this study suggest that strategies like this which aim at transforming the network members' values are very difficult to implement, because the network's or its hub's power of influence is quite limited when it comes to changing the values of its members (see also Håkansson and Ford 2002).

The *strategy of using other values* offers a more nuanced way to utilize network-level values-driven management. The idea is to look for and emphasize those existing values that can either strengthen the positive influence of a certain value or neutralize its negative impact, or introduce new values with a corresponding impact. PIF, for example, could try to use the value of social responsibility both to reinforce the sometimes positive influence and neutralize the sometimes negative influence of the value of profit-making. However, much like the former strategy of changing a certain value and/or its congruence, the strategy of utilizing other values to control the impact of a certain value may prove equally difficult to implement for the same reason: because a network has only modest influence over the values of its members.

Next, let us look at the *strategy of member selection* and the *strategy of case selection*. A strategic network is a coordinated network that can choose its members and the areas where it cooperates – at least to a certain extent. Hence, strategic networks can utilize the analytical information gathered in the process of network-level values-driven management to select such new members whose values will have a positive influence on cooperation, and drop such members whose values have a negative influence on cooperation. It can also select such cases of cooperation in which its members' values will have a positive effect on cooperation and eliminate cases in which the influence would be negative. These strategies are quite straightforward and not always constructive, but can be effective in situations where the upside of the positive influence or the downside of the negative influence is exceptionally significant.

Finally, the *strategy of using moderators* offers the widest range of possibilities to both amplify positive and reduce negative value influence on cooperation. The ways of implementing this strategy range from the basic measures of organizational control to more sophisticated means of governance. A comprehensive list of possible means of network management is provided by Grandori and Soda (1995), reproduced in Figure 8 under the heading “Moderators”. As a further measure, Griffith and Harvey (2001) suggest developing a program to increase the overall capabilities of the network members in cultural understanding, cultural interaction, communication competence, and communication interaction, i.e. developing a mutual communication culture within the network. A network could also assign “cultural mediators” (Crane 1998) to act as translators and mediators of cultural knowledge between network members and provide shared vocabularies and frames of reference in order to facilitate communication between them. Advances in network members’ cultural understanding and communication skills can help to improve network cooperation, as members grow more aware of their values and learn how these values will sometimes help and sometimes hinder cooperation in the network.

All in all, there are multiple tools and strategies that can be utilized in network-level values-driven management. One interesting question remains, however: Who is the organizational actor, the “network management”, that can use these tools and strategies of values-driven management in the network? In the literature review (see Section 2.1.4), I came to the conclusion that, from a pragmatic perspective, *all members* of a network have at least some power of influence over the other network members, although some of them have more power than others. This also holds for network-level values-driven management. Hence, all members can exercise network-level values-driven management at least to a certain extent, but the ones with more power of influence are more likely to succeed in it. For instance, if a strategic network has a hub organization, this hub may be in a good position to apply values-driven management within the network. In a coopetitive network like PIF, the power of influence is often channeled through some kind of an intermediate actor (Bengtsson and Kock 2000). In PIF’s case this would be its staff organization, which could assume responsibility for values-driven management in the network.

5.2.5 Summary of theoretical conclusions

The purpose of the current study was to increase our understanding of the concept as well as the usability and practice of network-level values-driven management. I defined my three research questions as: (1) *What is the influence of value congruence on the successfulness of network cooperation?* (2) *What are the key characteristics of network-level values-driven management?* (3) *What are the potential means of values-driven management at the network level?* The following list summarizes the theoretical conclusions that provide answers to these research questions.

1. Values surface differently in different cases of network cooperation depending on the characteristics of the task in question.
2. Values frequently do have an influence on the successfulness of network cooperation. A certain value and its congruence or incongruence may have a positive influence, a negative influence, or no influence at all on cooperation depending on the characteristics of the cooperative task.
3. A network has only limited control over the values of its members. In other words, it is difficult for the network hub organization or for the individual network members either to change or to control the values within the network.
4. The definition of values-driven management offered by the paradigm of strong cultures as a two-stage process – selecting core values and then increasing value congruence – is not applicable at the network level, because values surface and influence cooperation differently in different cases of network cooperation, and also because a network only has limited control over its members' values. Hence, a new definition is needed for network-level values-driven management.
5. I propose a wider definition of network-level values-driven management as *a means by which management can increase awareness and understanding of organizational values in a network in order to sensitize and prepare the network members for the positive and negative effects that values may have on cooperation between them.*

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6. The proposed definition of network-level values-driven management can be deconstructed into the following stepwise process:
 - 1) Identify the critical cooperative tasks, or domains, of the network.
 - 2) Identify the most significant values likely to surface in these tasks.
 - 3) Analyze whether these values are congruent or incongruent among the network members with respect to these tasks.
 - 4) Analyze how the values and their congruence or incongruence affect the successfulness of network cooperation in completing the tasks.
 - 5) Make the network members understand and grow aware of how values and their congruence or incongruence affect the successfulness of network cooperation in completing the tasks.
 - 6) Amplify the positive impacts and reduce the negative impacts of the congruent or incongruent values (an optional step).
 7. Finally, I propose a number of tools and strategies that can be used in the practice of network-level values-driven management (see Sections 5.2.3 and 5.2.4).

The next section discusses the contribution of these theoretical conclusions to prior research on networks, organizational values, and values-driven management.

5.2.6 Linking the theoretical conclusions to prior theory

After presenting and discussing the theoretical findings of this study in the previous sections (Sections 5.2.1 – 5.2.5), I will now briefly reflect on these results and their contribution to prior research.

In terms of network research, the current study offers a new conceptualization of the theory of *values-driven* network management, thus extending the discussion on network management with the perspective of values-driven management. I refer to this emerging theory as “network-level values-driven management”, which can be categorized as a mechanism of social coordination and control in networks (Grandori and Soda 1995). Although I propose this theory as a new “mechanism” for network management, I do not

mean it to be taken as a stand-alone tool but, rather, as a means of control that *complements* other network coordination mechanisms (see also Desmond 2004). For instance, a network can extend its management practices by utilizing values-related knowledge collected in the process of network-level values-driven management, in order to develop communication within the network as well as its incentive and selection systems.

My second contribution relates to the discussion on shared values and their role in developing and maintaining networks (e.g. Dwyer et al. 1987; Jarillo 1988; Ring and Van De Ven 1994; Morgan and Hunt 1994). The current study adds to this discussion by showing that, while a network may have shared values that help its members to cooperate, some of these shared values may also have unwanted consequences in particular situations of network cooperation. Thus, if the aim is to improve network cooperation by managing its values, emphasis should not be placed on the *similarity* but on the *compatibility* of values of the network members (see also Faulkner 2003). This is a necessary – although not necessarily a sufficient – step towards adapting values-driven management to the network level. As the lessons of this study show, network members' values may be quite compatible in one particular cooperative situation, but they can be incompatible in others. Therefore, values-driven management is at best a highly contextual, situational tool of network management.

In terms of research on organizational values, this study widens the existing organizational-level model of values and their antecedents and outcomes (see e.g. Meglino and Ravlin 1998; Sagie et al. 1996; and Connor and Becker 1994) to the network level. This is an important extension, as prior research on organizational values has almost completely neglected the network level of analysis (see e.g. a literature review on the different levels of analysis by Sagie and Koslowsky 1998). Based on the findings of the current study, the basic model of the antecedents and outcomes of values seems to hold true also at the network level, despite the fact that this represents a distinctly different level of analysis with its own particular qualities as compared to other analysis levels.

Finally, the current study also extends the theory of organizational-level values-driven management (e.g. Humble et al. 1994; Simons 1995; O'Reilly and Chatman 1996; Puohiniemi 2003) to the network level. Whereas prior research has mostly been based on the

paradigm of strong cultures, this study shows that network-level values-driven management cannot be based solely on that paradigm. It seems that it is difficult to actually control organizational values in a network, because each network member has its own, deeply seated organizational values which are not easily influenced by other network members. This notion also supports the prior notion that a network is not easily controlled by a single hub firm (see e.g. Wilkinson and Young 2002; Håkansson and Ford 2002). Consequently, to be applicable at the network level, the perspective of strong cultures needs to be extended by the perspectives of differentiation and fragmentation (Meyerson and Martin 1987; Martin and Meyerson 1988; Martin 2002), which allow a larger degree of freedom in applying values-driven management. The wider definition of values-driven management actually sees as its goal not to create a “strong” or an “integrated” network culture, but to enable the network to improve cooperation *despite* its more or less ambiguous culture.

5.3 Managerial implications

This study raises a number of issues that are likely to be of interest to managers involved in managing business networks. Firstly, the results indicate (1) that the organizational values of network members do have an influence on the successfulness of network cooperation, (2) that different kinds of values surface in different strategic tasks of a network, and (3) that a certain value can have either a positive or a negative influence on network cooperation depending on its content and its congruence or incongruence and also on the characteristics of the task in question. This means that in order to improve cooperation within the network, managers need to (1) be aware not only of their own corporate values but also of the values of the other network members and (2) identify the specific values that surface in each of the network’s critical tasks and well as their effects on the successfulness of cooperation in completing the tasks.

Secondly, managers would need to take a look at the process, tools, and strategies of network-level values-driven management presented in this study, and analyze whether and how these tools and strategies could be applied in their specific cases of network

management. In this study I have presented a number of examples of ways to use values-driven management in a network context, but there certainly are other applications as well. Managers should, therefore, keep looking for other creative ways to adapt the process, tools, and strategies to their respective contexts of network management.

And lastly, managers also need to be aware that values do not influence network cooperation in isolation. Obviously there are multiple other factors that can either help or hinder cooperation. Some of these factors are controllable by network members and some are outside their control, and not all of them are linked to organizational values. Values-driven management should, therefore, not be thought of as the *panacea* of managing a network. Rather, network-level values-driven management should be thought of as a complementary means of improving cooperation in the network together with other means of management.

5.4 Limitations

An obvious potential limitation of the current study concerns *generalizability*. Are its results generalizable to other similar or closely related contexts, networks, and network types, and if so, where are the limits of that generalizability? Are the findings generalizable to all strategic networks of collective action? How about strategic networks in general? One way to assess the generalizability of the results of a case study is to apply them to other contexts of interest – i.e. to discuss “the relevance of the case results in a larger (but historically and culturally specific) framework, a process that is comparable to generalization in survey research” (Alasuutari 1996, 378). I will now provide some evidence of the generalizability of my findings by applying the concepts and tools developed in this study to a typical case of a strategic network, namely to Nokia and its supplier network. The following example is based on two sources: Ali-Yrkkö (2001) and Sadowski et al. (2003).

Nokia is a good example of a company whose operation is strongly based on cooperation with other organizations. The company has actively built and developed its network of suppliers into a closely-knit network primarily to ensure that it stays competitive also in an increasingly complex future. Nokia’s ultimate motivation for networking, therefore, is

financial gain. The main reason for suppliers to enter into a relationship with Nokia lies in its dominance as a market player. Smaller suppliers in particular are dependent on such players if they want to increase their sales and/or gain better access to the market. Nokia's suppliers, thus, also hope to gain financially by engaging in cooperation with Nokia. It is fair to conclude, therefore, that one of the core values behind successful network cooperation between Nokia and its suppliers is the congruent value of making a profit.

Now let us look at Nokia's cooperation with its Finnish and international suppliers during the 1990s. Sadowski et al. (2003) argue that the technological discontinuities in mobile telecommunications in the 1990s, which demanded new competencies both from Nokia and from its suppliers, were the reason why Nokia increasingly began to replace its Finnish suppliers by international suppliers who had more of the needed new competencies. This, of course, meant negative consequences for the Finnish suppliers, but it was financially well-grounded from Nokia's viewpoint. Hence, in the face of technological problems, the congruent value of profit-making did not help but actually had a negative influence on cooperation between Nokia and its Finnish suppliers, since it was in Nokia's business interest to lessen cooperation with the Finnish suppliers in the new situation. In this case, congruence in the value of profit-making had a positive impact on Nokia's cooperation with its international suppliers but a negative influence on cooperation with its Finnish suppliers (see Table 22).

If Nokia would have wanted to improve cooperation with its Finnish suppliers in the new situation, it could have utilized values-driven management. For instance, it could have emphasized the value of "Finnishness" – "being Finnish", "sticking up for Finland" – inside Nokia. This would have been a congruent value between Nokia and its Finnish suppliers and would have improved cooperation between them (see Table 22). It would also have provided an example of using a "neutralizing" value to reduce the negative influence of the congruent value of profit-making (this strategy of network-level values-driven management was included as a theoretical conclusion in Section 5.2.4). However, "Finnishness" would have been an incongruent value between Nokia and its international suppliers and would have had a negative influence on their cooperation. To sum up, although this example of Nokia and its suppliers may seem a bit naïve, it, nevertheless, offers some evidence for the possibility to

use the analytical and theoretical concepts created in this study to investigate other types of strategic networks – not just networks of collective action.

Table 22. Values and cooperation between Nokia and its supplier network.

Value	Influence on network cooperation	
	Positive	Negative
Congruent	<ul style="list-style-type: none"> • Profit-making (cooperation with international suppliers) • <i>"Finnishness"</i> (cooperation with Finnish suppliers) 	<ul style="list-style-type: none"> • Profit-making (cooperation with Finnish suppliers)
Incongruent		<ul style="list-style-type: none"> • <i>"Finnishness"</i> (cooperation with international suppliers)

Another possible limitation of the current study concerns the potential *interviewee bias* of the results. It could be argued that the results are biased because the conclusions are based only on insider interviews: there were no interviews with representatives of those PIF members who were *not* heavily involved in the network’s operations. Neither were there any interviews with governmental authorities, for instance, who might have assessed PIF operations from the outside. It could also be argued that this lack of interview data from different sources makes the conclusions of this study less “valid” because they were not validated using “data triangulation”. From the viewpoint of “objectivist” research the above criticism may be well-earned. However, from a constructionist viewpoint this criticism misses its target. According to moderate constructionism there are no “objective” truths – only *different* views of truth, although some of these views are “more true” than others. Hence, what my study offers is one viewpoint; other studies can offer other viewpoints.

At a more general level, I contend that the results of this study are valid in terms of the definition of validity provided in Section 3.4; in other words, the results (1) increase our knowledge of the studied issue; (2) are supported by data-driven argumentation that passes the scrutiny of different stakeholders involved in the study; and (3) give a fair account of the

voices of all the participants in the study. Of course, it is a matter of discussion how well this study holds up to these criteria, thus leaving the final word on its validity up for debate, especially within the academic and business communities.

Another possible limitation of the current study concerns *the operationalization of values*. Values were operationalized in this study relying heavily on my ability as a researcher to interpret the interview data. Potential weaknesses in identifying and interpreting the values could undermine the validity and credibility of the results. An alternative strategy to elicit PIF members' values would have been the use of the laddering technique (Reynolds and Gutman 1988; see also Rugg et al. 2002; Foote and Lamb 2002), which has been widely applied in advertising and marketing research to explore consumer values.

Laddering refers to an in-depth interviewing technique that primarily applies a series of probes such as "Why is this important to you?" to clarify interviewees' responses. The advantages of the laddering technique are that it is a systematic and thorough way of eliciting respondents' values. However, the method is also laborious: Reynolds and Gutman (1988) note that it is usually possible to obtain no more than two or three ladders from a respondent in a typical interview of 60 to 75 minutes. Therefore, the use of laddering in the current study would have exhausted the interviews and left much less time to discuss the different aspects of various cooperative cases.

Assuming that I had a clear understanding of the different aspects of the cooperative cases already *prior to* the interviews, it might have been possible to use the laddering technique to detect the values linked to each cooperative case. In retrospect, it might also have been possible, for example, to divide the 20 interviewees into two groups, so that I could first have interviewed one group about various cases of cooperation to gain an understanding of the different aspects of the cases, and then used the laddering technique with the other group to elicit the values linked to each of the cases.

A further limitation may concern the *interconnectedness of organizational values and organizational culture*. Is it possible study values without studying the underlying culture? If this cannot be done, then is it not also impossible to study "values-driven" management without studying "culture-driven" management? And how should we define culture-driven

management? Some researchers argue that values cannot be studied without investigating culture, while others argue that indeed they can (Martin 2002). I tend to think that the key to this dispute lies in the definitions given to “values” and “culture”. My definition of culture in the current study regards culture as providing a *background* for exploring and understanding values, and sees organizational values as a core element of organizational culture. I also pointed out early on in this study that I would approach culture and values from the perspective of culture-as-a-variable instead of from the perspective of culture-as-a-metaphor. Based on these delineations, I would argue that it is both possible and meaningful to study values without investigating the underlying culture.

At a more general level, a researcher can always choose whether to focus on a certain factor, such as values, or on a wider set of factors, such as values, norms and artifacts, depending on the objectives of the study. A narrower focus is justified if the aim is to reveal some specific aspect of a specific factor, a wider focus if the aim is to understand the phenomenon in a wider context. The narrower focus in this study, thus, is further justified by the fact that values-driven management is an existent, contemporary empirical phenomenon. Most of the companies interviewed for this study actually apply a management tool that they called values-driven management, not “culture-driven management”.

Finally, a further limitation may concern a decision I made at an early stage of this study: I decided to leave norms, *relational norms* in particular (e.g. Heide and John 1992; Gundlach and Achrol 1993; Cannon et al. 2000; Tuusjärvi 2003), outside the scope of the study. This decision was beneficial in that it allowed me to concentrate fully on values, but at the risk of perhaps overlooking some insight that might have been provided by the theories on relational norms. They might have helped me, for instance, in distinguishing individualistic and competitive behavior from mutual and cooperative behavior within PIF. A comparison between values and norms might have provided valuable insight into differences and similarities in values and norms, and their individual and joint influence on network cooperation in different contexts. Yet, values and norms *are* separate concepts – and I believe the current study is valuable *for the very reason* that it focuses specifically on values, enabling me to contribute especially to the research on values-driven management.

5.5 Directions for future research

The current study opens a number of potential avenues for future research. To start with, it would be interesting to adopt the research strategy of this study to a study of other types of networks, vertical as well as horizontal. This would help to determine whether the results of this study are generalizable to other kinds of strategic networks. For instance, Nokia's supplier networks would offer an attractive subject of study in this respect. Does value congruence or incongruence between Nokia and its suppliers influence their cooperation? If the influence is negative, does Nokia's strong power of influence enable it to suppress the values of its suppliers, or even *change* them?

Another alternative way of assessing the generalizability of the current study would be to investigate a non-profit network. It would certainly be interesting to see what influence, if any, the value of profit-making has on cooperation, say, in a network of humanitarian organizations. It is easy to assume that the value of profit-making in such a network would have less impact on cooperation than the value of ethicality, for example. However, fund-raising and donating money is an integral part of what humanitarian organizations do, which makes it likely that a value like profit-making is present in one form or another.

Moreover, the analytical tools and especially the potential strategies for network-level values-driven management developed in this study are still tentative. More research is, therefore, needed to assess and validate these analytical tools and strategies. Such research could apply, for instance, an experimental or hypothesis-oriented research approach.

Future research might also pursue a contingency-type of study to evaluate the advantages and disadvantages of value congruence and incongruence in different types of networks with different types of goals and logics of value-creation. The benefits of varying degrees of value congruence in different types of networks could be analyzed, for instance, using the value-system continuum presented by Möller et al. (2005). A preliminary assumption here could be that high value congruence is beneficial in stable, efficiency-seeking networks, while low value congruence would benefit emerging, innovation-seeking networks. Another idea would be to investigate whether values have a stronger influence on cooperation in certain

types of networks than in others. Is value influence on network cooperation stronger in the field of humanitarian aid than in the field of the mobile phone business, for example?

One more direction that future research could take would be to widen the perspective of the current study by bringing in other aspects of organizational culture for a closer review. While this research strategy would mean increased complexity, it might also reveal the interconnectedness of values and other aspects of culture, and their joint effects on the successfulness of network cooperation.

Lastly, in the field of organizational studies, it would be interesting to adapt the approach of this study to the organizational level and define an organization as a network of individual units or even of individual employees. This would raise a number of interesting questions: Do the values of individual employees help or hinder cooperation? Does the value of profit-making have a negative or a positive influence on organizational cooperation, if we look at it from the perspective of individual employees? If employees are faced with a situation in which they are forced to choose between their individual values and the values of the organization, which will they choose? And how will this affect the successfulness of organizational cooperation?

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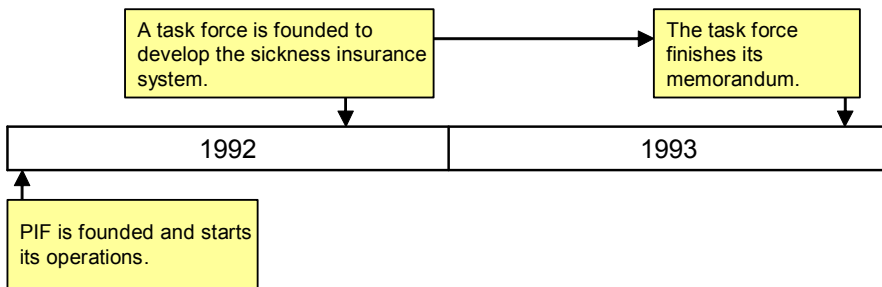
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APPENDIX 1: PIF'S ACTIVITIES RELATING TO PRSI ISSUES

Legislative events relating to the reimbursement issues:

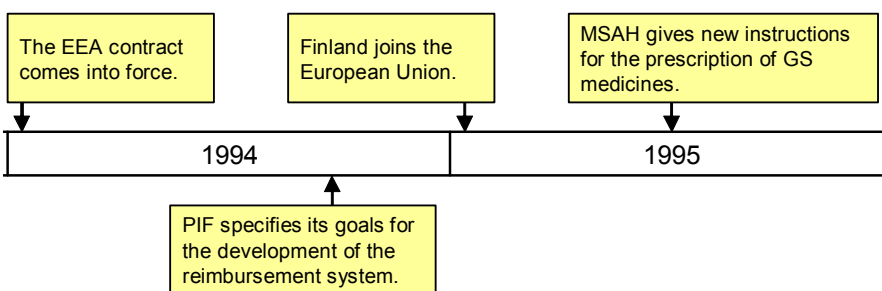
	<p>Suggestions of the task force:</p> <ul style="list-style-type: none"> • reimbursement rates: 100%, 75% and 50% • purchase-based deductibles also to special rate reimbursements • cost ceiling to FIM 3100 • re-evaluation of the classification of specially reimbursable sicknesses • increasing of the price-consciousness of doctors and patients • continuation of the voluntary generic substitution experiment • reference price system is not proposed • freezing of the prices of most reimbursable medicines
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PIF's goals and activities relating to the reimbursement issues:

<p>PIF's goals relating to the reimbursement system:</p> <ul style="list-style-type: none"> • patients' deductibles should be raised • the so called neutrality principle should be preserved • authorization and reimbursement decisions should be given simultaneously 	<p>PIF's areas of emphasis during the operation of the task force:</p> <ul style="list-style-type: none"> • the system should guarantee the best possible medical treatment for the patient • the system should treat both individual companies and individual products equally <p>PIF supports the implementation of the task force's suggestions and recommends the voluntary freezing of medicine prices to its members.</p>
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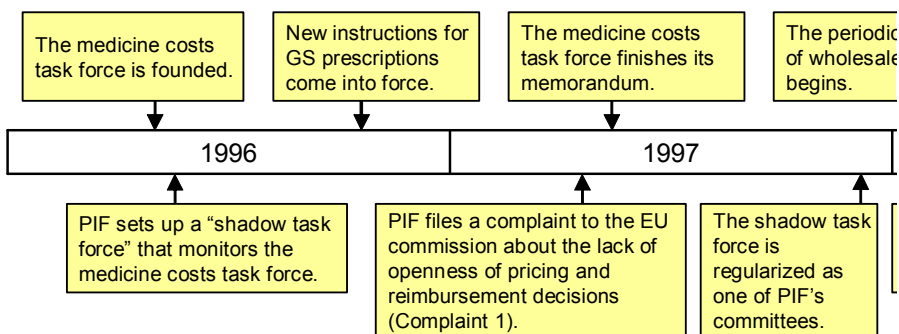
<p>Harmonization according to the EEA contract:</p> <ul style="list-style-type: none"> • no more direct price control; the demand for “a reasonable price” will come to an end • this will be substituted by indirect price control in which the pharmaceuticals pricing board will confirm the highest allowed wholesale price that warrants reimbursements 	<p>New authorization permission regulations come into force in the European Union and Finland harmonizes its legislation accordingly.</p> <p>Despite of the freezing of medicine prices MSAH changes the instructions for generic medicines: a doctor may prescribe medicines with their generic names and when this happens the pharmacy is obligated to offer the cheapest medicine or one close to its price.</p>
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<p>PIF specifies its goals for the renewal of the reimbursement system:</p> <ul style="list-style-type: none"> • the system should be more simple • the system should guarantee the best possible treatment for the patient • the fairness of the system should be enhanced • the system should treat individual companies and individual products equally • the pharmaceutical market should be open and based on free markets • administrative regulations should be avoided • the high costs of institutional care can be avoided effectively with the rational use of medicines 	<p>PIF suggests changes to the new GS instructions given by MSAH, but MSAH does not take these suggestions into account.</p>
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Legislative events relating to the reimbursement issues:

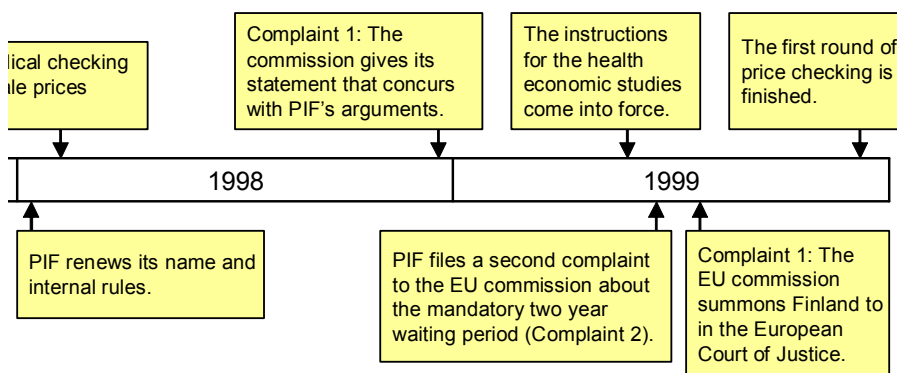
<p>The goal of the medicine costs task force is to clarify how the medicine prices are formed and what are the possibilities to control costs by controlling the prices and the sickness insurance system.</p>	<p>The key suggestions by the medicine costs task force were the following:</p> <ul style="list-style-type: none"> • periodical checking of the wholesale prices • re-evaluation of the current price decisions within the next two years • demand of health economic studies • introduction of a mandatory two year waiting period before a special reimbursement rate is awarded <p>The suggestions were mostly approved by the Finnish government.</p>
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PIF's goals and activities relating to the reimbursement issues:

<p>PIF sets up a "shadow task force" that monitors the operations of the governmental medicine costs task force and develops alternative reimbursement models to be presented to the medicine costs task force. PIF emphasizes that the reimbursement system should have the following characteristics:</p> <ul style="list-style-type: none"> • administratively simple and quick • understandable and flexible for the patients • equal and fair for the companies that operate in the pharmaceutical sector. <p>The reimbursement system should also follow the principle of the EU directive 89/105/EEC, which says that the pricing and reimbursement systems should encourage the development of new medicines.</p>	<p>PIF had started discussions with MSAH in 1996 about the pricing and reimbursement decisions and whether they were done according to the directive 89/105/EEC. When MSAH disagreed about the domain of the directive PIF filed an official complaint to the EU commission in April 1997 (the decision to do this was made already in the beginning 1997).</p> <p>PIF's board decided to regularize the shadow task force as one of PIF's regular committees starting from the beginning of 1998. The committee took charge of the pricing and reimbursement issues in PIF.</p>
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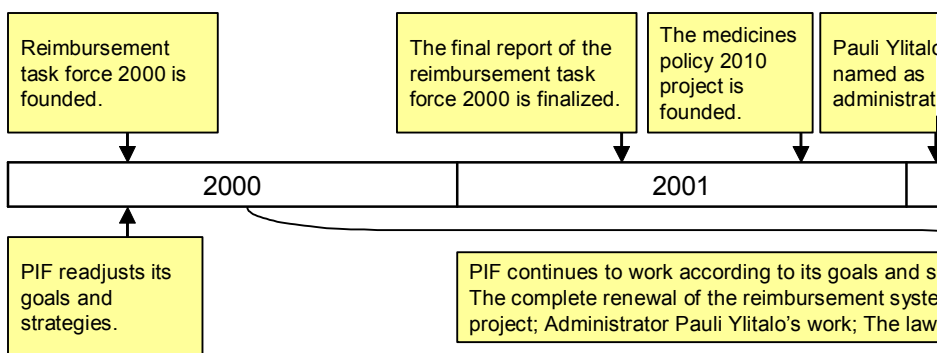
	MSAH's instructions for the health economic studies came into force in the beginning of June. The instructions were drawn up in cooperation by the industry and the authorities.
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<p>PIF criticizes the inappropriateness of the periodical checking of wholesale prices and begins counteractions.</p> <p>PIF suggests that the instructions for the appraisal of health economic studies should be done in cooperation by the industry and the authorities; MSAH agrees.</p> <p>Complaint 1: The Finnish government and the EU commission discuss the matter over the year; the commission gives a statement that concurs with all of PIF's arguments.</p> <p>During the year PIF recognizes the need for a complete renewal of the reimbursement system; PIF decides to suggest also gradual changes to the current system.</p>	<p>The main goal for the year 1999 is to start the complete renewal of the reimbursement system with the following sub-goals:</p> <ul style="list-style-type: none"> • patients' needs should be met • public sector services should be supplemented with private sector service • the system should fair to the companies • EU's openness principles should be met • health care system should be seen as whole <p>Beside the complete renewal PIF seeks also for gradual changes to the current system:</p> <ul style="list-style-type: none"> • the openness directive (Complaint 1) • the two year waiting period (Complaint 2) • etc.
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Legislative events relating to the reimbursement issues:

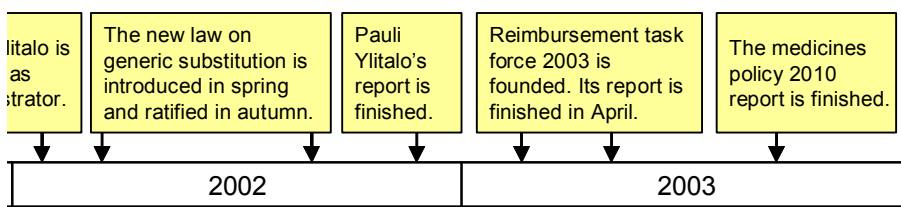
<p>The reimbursement task force 2000 is founded in March. It notes the following problems in its interim report in June:</p> <ul style="list-style-type: none"> • patients are not treated equally • the system is complex • health economic studies are difficult • the insurance principle does not come true in smaller reimbursements • the exceeding of the deductibles cost ceiling has lead to the formation of a new reimbursement class • the benefits of medicines in the overall health care system has not been studied • medicine care is funded separately from the other parts of the health care system 	<p>The reimbursement task force 2000 considered the following alternative reimbursement systems:</p> <ul style="list-style-type: none"> • a system funded by municipalities • a system based on the evaluation of medicine benefits, i.e. medicine choices are controlled • a cost-based system <p>The final memorandum of the reimbursement task force 2000 is finalized in July. The memorandum focuses on the correction of the current reimbursement system. The job of the task force will be continued as an administrative job.</p>	<p>In se on au for Ac rei in giv co sy: the</p>
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PIF's goals and activities relating to the reimbursement issues:

<p>PIF's readjusted goals and strategies:</p> <ul style="list-style-type: none"> • sufficient funding to reimbursements added with private sickness insurances • the reimbursement system should be fair to the patients, equal to the companies, and administratively simple and transparent <p>PIF is in favor of the insurance-based reimbursement system. Medicines policy should be stable and foreseeable. Medicine care should be available to the patient without delays. The pharmaceutical market should be based on free competition.</p> <p>The strategy is based on the strengthening and usage of the opinion environment, proactive initiation, personal influencing, and the usage of knowledge based on research.</p>	<p>PIF sets the following goals for the lobbying during in 2002:</p> <ul style="list-style-type: none"> • there should be only two reimbursement classes: a basic and a special class • the two-year waiting period should be dismantled • the European Court of Justice will have its say on the process of getting products reimbursed with the special rate • there is no need for control mechanisms such as the generic substitution • pricing decisions should be valid for at least 3 years • the pricing process needs to be developed further 	<p>Due to: g rei pr • ir sy: ma Due the its go su</p>
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<p>In spring the government introduces a secretly prepared proposition for a new law on generic substitution. The law is ratified in autumn practically unchanged and comes into force in April 2003.</p> <p>Administrator Pauli Ylitalo's report on the reimbursement system corrections is finished in December. Half of the pronouncements given on the report are in favor of the complete renewal of the reimbursement system and the development of the funding of the sickness insurance system.</p>	<p>MSAH sets up a reimbursement task force 2003 to prepare a government bill based on the reports of the task force 2000 and administrator Pauli Ylitalo. In the final memorandum of the task force 2003 several changes to the reimbursement system are suggested:</p> <ul style="list-style-type: none"> • basic reimbursements should be broadened • special reimbursements should be reduced • zero reimbursement class should be ratified • percentage-based deductibles should be taken into use • etc. <p>The final resolution on the government bill will be given in 2004.</p>
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nd strategies with several continuing projects:
 system; The reimbursement task force 2000; The medicines policy 2010
 law on generic substitution; The reimbursement task force 2003; Etc.

<p>During 2002 PIF continues its work in order to:</p> <ul style="list-style-type: none"> • get the complete renewal of the reimbursement system in the government program of 2003 • influence the changes in the reimbursement system that will be made based on the report made by administrator Pauli Ylitalo <p>During 2002 PIF also works had to fight off the new law on generic substitution and to fix its most harmful defects. However, the government does not take the industry's suggestions into account practically at all.</p>	<p>PIF continues its actions and lobbying based on the policies, goals and strategies that it has defined earlier.</p>
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APPENDIX 2: LETTER TO INTERVIEW PROSPECTS



HELSINGIN KAUPPAKORKEAKOULU

KTM Timo Järvensivu
Department of Marketing
Helsinki School of Economics
PO Box 1210, 00101 Helsinki

6.10.2004

NN

A DISSERTATION ABOUT NETWORK MANAGEMENT IN PHARMA INDUSTRY
FINLAND (PIF)

Dear NN,

I am preparing a dissertation for the Helsinki School of Economics about network management. Pharma Industry Finland (PIF) and its member companies form the empirical context of this study. I have discussed this study with the General Director Jarmo Lehtonen and the Director of Interest Supervision Sirpa Rinta and they have agreed that I can use PIF as the empirical context.

In the study I am interested particularly in the goals and activities of Pharma Industry Finland and its member companies relating to the medicines reimbursement system and its renewal during the years 1992-2004. My goal is to interview all of the key persons that have been on PIF's board or the committee of pricing and reimbursement issues during this period. The interview sessions will consist of informal discussions, and the goal of the discussions is to shed light on the different viewpoints that PIF and its member companies have or have had over the medicines reimbursement system and its renewal in Finland. The length of a single interview is approximately 1.5–2 hours.

Your participation in the study is highly valued as you have been highly involved in PIF's operations. As soon as the study is finished the dissertation will be available to you, and if you wish I will be glad to present the results of the study also in person.

During the next few days I will be in contact with you by phone in order to agree on a suitable interview date. You may also contact me either by phone (040-5479956) or by email (timo.jarvensivu@hkkk.fi).

Yours sincerely,

Timo Järvensivu

APPENDIX 3: INTERVIEW GUIDE

Interview Guide Timo Järvensivu Dissertation

The purpose of the interviews is to gather *stories* about PIF's operations during 1992-2004.

1. Background of the interviewee

History in the pharmaceutical industry?
Role and history in the member company?
Role and history in PIF?

2. Activities and cooperation in PIF, and the renewal of the reimbursement system

Events and goals

What have been the central events in PIF?
What have been the central goals in PIF?
Why in particular these events and goals have been central?

Actors, roles and cooperation

Which individual companies and persons have had a central role in PIF?
What kind of roles have these companies/persons had?
How has the cooperation functioned between the companies/persons?
Why has or hasn't the cooperation been successful?
What has been done to improve cooperation?

Problems, contradictions and successes

What kind of problems or contradictions have there been in PIF?
Why have there been these problems and contradictions?
What has been done to overcome these problems and contradictions?
In what way has the cooperation been exceptionally successful?

3. PIF's and its members values and values-driven management

What kind of values do PIF, its member companies, and the interviewee's company have?
How do the values of PIF, its members, and the interviewee's company work together?
What has been done to overcome possible problems or contradictions?
What kind of discussions about values have there been in PIF?
How has PIF and the interviewee's company utilized values-driven management?

APPENDIX 4: EXAMPLES OF QUOTATION TRANSLATIONS

Original Finnish version

Translated English version

Kyl se sieltä omistajista päin tulee se, se paine. Et jos mä aattelen meidän hallitusta... --- että siellä on nää pääomasijoittajat. --- Nää kundit ei tunne toimialaa ollenkaan. Ei pätkääkään. Et sit siellä on... meillä on muutama asiantuntija, jotka tuntee toimialaa, mut kyllä se on numerovetoista. Se on täysin numerovetoista se hallituksen ohjaava toiminta meihin päin. Joka tietysti sitten heijastelee minunkin toimintaa, että... pitää asiat saada kuntoon. (P14)

The pressure, it's from the direction of the owners. Like, if I think of our board of directors --- that there are these capital investors. --- These guys don't know this business at all. Not a bit. So then there are... we have a few experts who know the business, but it's really number-based. It's totally number-based, the control that the board exerts on us. Which, of course, is reflected on my own activities, so that... I've got to get things in order. (P14)

Kyl me yritetään sekä Suomessa että myöskin Suomen rajojen ulkopuolella toimii niin, että... että ne valmisteet, jotka meillä on... niin niitä käytettäis niin paljon oikeen kuin se vaan yleensä tämmösen lääketiedetiedon näkökulmasta on tarkoituksenmukaista. -- Se määrittelee sen potentiaalisen toimintakentän. Ja siinä meidän pitäis olla niin tehokas kuin mahdollista. Ja sieltä sitten niinkun maksimoida se meidän taloudellinen tulos niin hyväksi kuin mahdollista. (P9)

Well yes, we do try to operate both in Finland and also outside Finnish borders so that... that the goods we sell... that they'd be used in a correct and appropriate way as far as possible based on the current knowledge of medical research. --- This defines the limits of our potential field of doing business. And that's where we ought to be as efficient as possible. And from there then maximize our financial result to the extent possible. (P9)

Kyllähän silloin itse asiassa keskusteltiin sitä, et tehtiinkö me kaikki voitavamme sillä tavalla, että tavallaan meidät niinku yllätettiin... yllätettiin... Ja että me puuhattiin lääkekorvausjärjestelmän uudistamisen kanssa silloin, kun sosiaali- ja terveysministeriö suunnitteli tämmöstä mullistavaa niinku geneerisen substituution voimaan saattamista Suomessa. (P13)

Yes, in fact we did have these discussions about whether we did all we could've done in the sense that we were, in a way, caught by surprise... we got caught by surprise... And that we were busy renewing the medicines reimbursement system at the same time that the Ministry of Social Affairs and Health was planning this, like, revolutionary introduction of generic substitution to Finland. (P13)

Mun mielestä ne pitäisi olla, et se ylin johtaja, ja toimitusjohtaja erityisesti, tavallaan niinku sanelee, että miten me toimitaan. ”Jos me halutaan olla hyvä toimija tällä toimialalla, me noudatetaan näitä pelisääntöjä.” Mut sitte se riippuu aika paljon siitä markkinointijohtajasta, onks se niinku vapaamielinen, menee niitä kolistellen niitä reunoja myöten, vai onks se sitten stick-to-the-rules, vai ottaaks se sitten vaarin siitä, mitä toimitusjohtaja sanoo. --- Semmonen käsitys tulee hyvin helposti, että tuota, tieto ei ikäänkuin kulje johdon ja sitten sen toimivan, tuota, tason välillä. (P12)

I think it should be so that the top executive, and especially the CEO, should sort of dictate how we do things [within the organization]. “If we want to be a good actor in this field we’ve got to stick to these rules”. But then it depends quite a lot on the marketing director, whether he or she is, like, free-minded and keeps testing the limits of the rules, or whether it’s a question of sticking to the rules, or does he or she do what the CEO says. --- You easily get the feeling that, you know, that information doesn’t flow very well between the top executives and the operative level. (P12)

APPENDIX 5: LIST OF INTERVIEWS

Interviewee	Company	Interview date	Duration
P1	C1	16.6.2004	75 min
P2	C1	16.6.2004	75 min
P3	C2	26.10.2004	105 min
P4	C3	28.10.2004	85 min
P5	C4	2.11.2004	110 min
P6	C4	2.11.2004	110 min
P7	C6 (C5)	5.11.2004	100 min
P8	C6	5.11.2004	105 min
P9	C7	9.11.2004	110 min
P10	C8	10.11.2004	70 min
P11	C9	12.11.2004	100 min
P12	C10	16.11.2004	95 min
P13	C11	22.11.2004	105 min
P14	C12	24.11.2004	110 min
P15	C13	10.12.2004	70 min
P16	C14	14.12.2004	100 min
P17	C15	20.12.2004	100 min
P18	C15	21.12.2004	80 min
P19	C16	4.1.2005	105 min
P20	C12	5.1.2005	110 min
P1	C1	21.12.2005	70 min
P2	C1	21.12.2005	70 min

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