

Turning "brandstop" into a great business

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Josef Liljegren, *Networks that Organized Competition: Corporate Resource Sharing between Swedish Property Underwriters 1875–1950*, Umeå studies in economic history 50 (Umeå: Umeå universitet 2019). 205 s.

Research questions

The thesis by Josef Liljegren is positioned at the intersection of insurance industry history and corporate networks providing an in depth analysis on the emergence of the property underwriters market and its dynamics of collaboration, competition and adaptation for 75 years in Sweden. Throughout its 11 chapters, the author examines three layers of corporate networks between Swedish property underwriters from 1875 to 1950. More specifically, interlocking directorates (IDs) or directors network, which emerge because of the sharing of the same board member between two firms; ownership network (OW), created through cross ownership of insurance firms shares in mutual and investor-owned companies; and formal collaborative organizations links (OR), that come up when underwriters associate to the same cartels and other collective organizations. These three networks represent a proper proxy to study dynamics of collaboration and competition among firms.

This very ambitious work investigates five research questions. The first one is about the nature of the industry's interfirm connections. Liljegren argues that interfirm networks emerge because of two competing/complementary causes, social or functionalist, with micro and macro implications. In the former perspective, the organization of businesses depends on socio-economic and political elites. The functionalist theories instead argue that networks can be a tool for firms to obtain access to resources, such as information, knowledge, financial capital; that increase firm's competitiveness.

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At the micro-level, the individuals and firms are the actors that engage in networking, creating connections to other firms. At the macro-level, the sum of the connections between firms of the industry makes out the market structure. Figure 1 summarizes these dimensions. In the top-left square, interfirm networks are the result of social grounds of business leaders. The social background of directors and managers, their friendships, shared trajectories, cause firms to be connected to other firms. Socially homogenous groups of political and business leaders developed links that coopt the markets (top right square). A strictly functional network tie, on the other hand, would have come into existence because firms get benefits from a result that the tie provides. Firms strategically choose interfirm connections to facilitate access to resources (bottom left square). This functionalist approach had an impact on the macro level. Changes in the configuration of socioeconomic elites in Sweden lead market organizations rely progressively more on professional collaborative and cartel agreements rather than on links with politicians that were members of the elite in order to reduce competition (bottom-right square).

FIGURE 1

| | Micro-level | Macro-level |
|---------------|--|--|
| Social | Socio-economic qualities of people in firms. | Influence of elites over market organization. |
| Functionalist | Performance of individual firms. | Concentration and collaboration on entire markets. |

Before going into the second research question, Liljegren describes the historical background of the insurance and property underwriter's industry in chapter 3. Building on previous research, the author analyzes the organization of the insurance industry along both competition and collaboration, starting from the early times when the "brandstöp"-system was institutionalized by a national law in the 14th century by king Magnus Erikson that required payment of an ex-post tribute to victims of fire damages by neighbors.

The second research question, "how did the networks develop over time?" is addressed in chapters 4, 5, 6 and 7. Succinctly, the author finds that there was an increasingly dense interfirm exchange between the property underwriters. The different network layers grow at different moments and speeds. The corporate networks began its expansion rather late; it is not until the late 1910s that a substantial increase in network density occurs in IDs and OR. OW, on the other hand, increased more modestly until taking off in the

1940s. The difference in the range of networks between national and local property underwriters is striking. Not only do local firms not share many directors with national firms, but their connections to other underwriters are very few throughout the 75 years from 1875. The local firms' way of operating did not benefit from the kind of networks in which national firms increasingly engaged.

The third question, "how could networks affect underwriters' ability to compete in the Swedish property insurance market?" is explored in chapter 8. Property insurance is an information intensive industry, drawing on that literature and building on the network data, the author shows that firms coordinated through OW and IDs managed to mitigate initial costs of underwriting diversification. IDs were symptomatic of a transfer of corporate resources which allowed firms to lower their entry costs into new lines. Additionally, econometrics analysis show that broken ties were reconstituted and consciously maintained. Firms were aware of network advantages to their organization and underwriters made strategic decisions to network.

Chapter 9 focuses on the fourth question; "how did networks affect the collaboration between firms in the market?" Insecurity and uncertainty lie at the core of the underwriting service, so significant resource sharing was institutionalized using collaborative organizations such as cartels, social clubs, local discussion clubs and organizations dedicated to the sharing of several corporate resources. Property insurance was a market which was early to adopt cartels as regulatory and market harmonizing organizations in the late 19th century. In subsequent decades, virtually all lines of insurance became organized through cartels, of which most firms were members. Compared to other industries in Sweden, the cartelization in this industry was high between 1875 and 1950. By coming together in cartels, underwriters were able to draw advantages of scale from collectively collected and analyzed actuarial statistics to understand better the risk that they underwrote. Setting tariffs and risk categories collectively also reduced risk. Important collaborative organizations also played a key role through its regulatory and lobbying function.

The last question of this research work is "what kind of driving forces behind changes in the industry's network can be observed during this period?" Corporate networks emerged not only for transaction costs reasons. Historical diverse and complex driving forces pushed underwriters to further their networking and resource sharing. First, a small and collaborative political and economic elite of insurance men. Second, information diffusion and lower entry costs in the diversification process, which was spur by new technologies. Third, an institutional environment that allowed and encouraged cartel organizations for resource sharing in new lines of insurance when

they were created in the early 20th century. Fourth, new technologies, like steamships, electrified industries, and automobiles, created actuarial challenges to underwriters, since firms needed networks to understand the new risk to value it appropriately. Additionally, other local regulations incentivized the maintenance of a networked organization rather than mergers. The proto-consolidation of the market was thereby a slow process.

Contributions

This work has several contributions. The first one has to do with the assemble of the three layers of corporate network data. Few works have been able to accomplish this at industry or national level. Additionally, it contributes to our understanding of the ecology of network forms by exploring the case of property underwriters in Sweden. In the future these results can be used in comparative international studies of the insurance sector – or with other industries – to answer questions such as why is there such considerable cross-national and cross-regional variation in the frequency of network forms? Why are network arrangements so common in some countries and not others? Do rates of formation vary across industries? For instance, previous research suggests that alliances are more common in high technology or information intensive industries, but we do not know whether this is a function of the stage in an industry's life cycle, national culture or of basic structural features of activities that are highly dependent on information and the creation of new knowledge. Another contribution is related with the relationship between informal governance structures and state policies and its impact on the emergence and development of industries. This case shows that the state makes a difference in the ease with which collaborative arrangements are formed and are sustained. Finally, this work contributes to the topic of durability of networks. The need to acquire resources may lead to network arrangements that are an interim step, either a halfway point between market procurement and outright merger or a transitional move until internal capability is built up. This work shows that in this specific case networks survived for a long period; the proto-consolidation of the market was in fact slow. What was maybe initially a relationship approached with some caution and fear transformed into one that was institutionalized. Collaboration shifted from a means to an end. Careful comparative research along these lines would be welcome.

Critical discussion

I would also like to point out some weaknesses or areas of improvement. The first one has to do with the analytical framework based on transaction cost theory and resource-dependency theory. Given that this is a work on corpo-

rate networks in an information-intensive industry, building on the theory of interorganizational networks and the emergence of interfirm collaboration in industries such as Biotech would be more appropriate to explore the big questions not solved yet in the literature of corporate networks. For example, how the interplay of networks and the state help to build complex and not easy to sustain cooperative arrangements and effective industrial policy. Or how national cultures impact on the development of networks. A second limitation at the theoretical level is related with the omission of the Small Worlds concept and measures, which facilitates comparative work with other industries, countries and historical moments and help to identify differences, similitudes and the uniqueness of the insurance industry in Sweden.

At the methodological level, the three corporate networks layers are treated as similar in their nature when they are not. IDs and OW are based on individual's affiliation or ownership to several firms, while OR are based on firm's affiliation to cartels. A limitation related with the data, is the exclusion of life insurance companies. Property underwriters and life insurance companies historically shared connections that unfortunately are missing. Interesting insights about the development of the insurance industry might be lost and, consequently we have an incomplete picture of the market development process. Also, foreign companies in the insurance industry are not included, we cannot properly appreciate the network strategies performed by local businessmen respect to outsiders. Finally, the author does not take full advantage of the insights provided by its comprehensive database and graphs. He does not provide enough detailed tables in the appendices; neither describes in extenso the network figures. For example, tables per year with the number firms/individuals, evolution of network structural measures per year, or tables of the most central firms/individuals are each type of networks are missing.

Despite these weaknesses, I consider this thesis as a strong achievement, given the impressive data collection and analysis, the breadth of the important covered topics related with corporate governance without losing depth in the analysis and knowledge of the insurance industry in Sweden.