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Relational Changes between Statoil and Suppliers in the Last Sesquidecade

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Abstract

Research in relations management has burgeoned in the last sixty years, and literature has classified attributes of interorganizational relations into two models: The Collaborative, where integrated teams, flexibility, shared information and close relationships are cultivated; and the Adversarial, which bases its premise on market forces, formal communication, and the entitlements of contract.

The Norwegian supply and service industry has developed in parallel with Statoil, and both parties have benefited significantly from close interactions in the build-up-phase of the Norwegian petroleum sector. As the industry is maturing, the world is increasingly globalized, and the oil price takes unexpected turns, this close relationship is put to the test.

Combining various sources, this study investigates whether these relations have indeed endured, or whether the parties are entering into a more adversarial state of affairs. Founded in established theory, this thesis highlights, point by point, the development of the attributes deemed pertinent to distinguish the two relational models.

It is concluded that the relational gap between Statoil and the large Norwegian EPC-contractors have indeed widened in the last sesquidecade. This is explained by elaborating on mechanisms of market forces, historical circumstances, interactions of company and national culture, and the fine balance with which Statoil must both cultivate its suppliers, yet excel commercially.

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Having worked with this thesis, it has become apparent to me that relations, and the manner in which they are cultivated, are of great importance to our endeavours – whether one succeeds or fails, and especially how one experiences the journey itself, from start to finish.

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The Road goes ever on and on
Down from the door where it began.
Now far ahead the Road has gone,
And I must follow, if I can,
Pursuing it with eager feet,
Until it joins some larger way
Where many paths and errands meet.
And whither then? I cannot say.

J.R.R. Tolkien

CHAPTER 1 – Introduction

It all starts with a question.
And all questions have a basis of thought.

Throughout the '80s and '90s, relational contracting gradually replaced traditional contracting mechanisms. This has had a profound effect on oil companies and suppliers in the Norwegian petroleum industry – a sector characterized by some as “the beating heart of Norwegian economy”.

The Norwegian society has benefited greatly from this industry, as domestic actors have sought to grow in parallel to each other. Each party has benefited from the other; where oil companies have ensured continuous workflow to suppliers, they could in turn expect cooperation, trust and expertise.

This joint mentality of mutual development stems from the political visionaries in the '70s, who believed that Norwegians not only should reap benefits from short-term economic gains, but also construct a technical industry that would outlast the reserves found on the Norwegian Continental Shelf.

Now, decades later, globalization and advances in technology have bridged the gap between the world's markets. They are all joining into one, and the Norwegian industry is under pressure to compete with foreign actors, not only beyond our borders, but also at home.

Up until the year 2000, Statoil was a state-owned company. Since then, it has been privatized (howbeit the State still owns 67%), it has gone through mergers, and expanded internationally. The supplier markets are intensifying, and contractors have consolidated to become giants in their own right. Hand in hand with a rising oil price, the Norwegian market has matured since the dawn of the third millennium.

All these external factors play a part in how oil companies and suppliers interact with each other – how they do business, what their motivations are, and how they perceive the other party.

The question which hence arises is:

How have relations between Statoil and its suppliers developed in this period?

CHAPTER 2 – Review of Literature

2.1 The Principal-Agent Relationship

An “agency relationship” is an economic term where a principal (the owner) hires an agent (a contractor) to act on the principal’s behalf, and to advance the principal’s goals (Jensen & Meckling, 1976). Foss (1995) states that seeing as the principal is not the same as the agent, situations will arise where the goals of the parties diverge. This creates a conflict of interest, and the agent must decide which priority to act upon. (Pratt & Zeckhauser, 1985).

A seller that values repeat business with satisfied clients has a long-term incentive not to take short-term gains at the expense of the customer, as this would be to the detriment of their relationship. However, should the seller seek short-term profit, he may try to save costs at the price of quality, or allocate a larger portion of overheads to the principal. This is termed opportunism, exploitation, or breach of confidence. (CII, 1989; Howard & Bell, 1998; Bower & Joyce, 2003)

Traditionally, this relationship has officially been governed by contracts and written documents, but as the markets intensified after the 1950s, interest conflicts (and how to solve them) became a growing area of study in the subsequent decades. (Baker et al., 1988; Howard & Bell, 1998)

A study by Bonoma & Johnston (1978) found that many factors influencing the purchasing decisions were of a social nature, not merely rational-economic. The term “attraction” was therefore applied on the interorganizational level, where organizations as a whole are drawn to one another. (Ellegaard, 2012)

Salmi (2013) argues that social exchange theory, developed in the 1960s, formed an important foundation for the later resurgent interest in social factors of supply chain management. Here, the power of sociopsychological factors of supplier relationships complements the economic incentives previously stated to be dominant, and further terms such as “customer attractiveness”, “supplier satisfaction”, “competence marketing” and “preferred customer” have been coined to understand buyer-supplier relationships, beyond the economic aspects (Ellegaard, 2012).

2.1.1 Emergence of Two Models

A series of reports in the late 1980s and 1990s emphasized problems caused by fragmentation and conflict in industrial enterprises. They saw partnering and collaboration as a way of overcoming the issues so-called “adversarialism” brought forth in construction contracting. (Bresnen & Marshall, 2010)

This has led to the evolution of two contrasting models of relations management: The adversarial model, and the collaborative model.

The adversarial model is best coupled with the traditional approach to purchasing, and is described by Saunders (1997) as strictly legalistic; formal paperwork is relied on, and negotiations are of a win-lose nature. Here, one forms orders and contracts with clear statements and detailed terms and conditions, to provide redress for injured parties. One thus relies on (threats of) legal sanctions to ensure compliance, and to curb opportunistic or exploitative behaviour.

The collaborative model is best coupled with partnerships, which is defined loosely as involving a commitment by organizations to cooperate to achieve common business objectives (CII, 1989).

For example, the Construction Industry Institute, in 1989, called for:

“Changing traditional relationships to a shared culture without regard to organizational boundaries [where the] relationship is based on trust, dedication to common goals and understanding of each other’s individual expectations and values.”

Recommendations from the Latham (1994) and Egan (1998) reports in the UK later substantiated the claim that collaboration would be of benefit to the industry, and processes were initiated to try to implement this model (Bresnen & Marshall, 2010).

Bresnen & Marshall (2010) argue that in the first half of the ‘90s, there was a period of recession in demand for construction services. Principals could thus use their market power to encourage compliance, and in some projects, contractors were even willing to absorb extra costs or allow late design changes (without registering these as formal variations), to stay within the “spirit of the agreement”. This flexibility-mentality was often used as a marketing tool to win contracts.

Emmett & Crocker (2006), critical to the collaborative approach, claim that a major reason for not pursuing this strategy is the belief that business (buying/selling activity) is based on power. Two-way collaboration leaves one exposed to a greater degree, as personal relations become heavily intertwined with the economic exchange (Macneil, 1987). These strategies rely on social systems and tenets thought to induce collaboration.

One of these powerful mechanisms is the concept of trust.

2.1.2 Trust

Rousseau et al. (1998) endeavoured to define trust in a way that could apply to all disciplines, as economists, psychologists and sociologists tended to work with widely different conceptions of the term.

Their definition reads:

“Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another”

This definition’s key concept is vulnerability - a word disliked by economists, as it indicates little possibility of revenue. If one looks at it from Cousins’ (2013) perspective, he prefers to use the term “risk” over “trust”, as it is easier to quantify as a unit of analysis; as well as the deeply embedded theory of economics, that risk is a prerequisite for obtaining profit. As this study focuses on the relational, rather than economical aspect, however, “trust” will be employed.

Sako’s study of 1992 argues that the main difference between adversarial and collaborative contracting relationships is based on the three different levels of trust:

1. Contractual trust, where both parties keep their promises.
2. Competence trust, where both parties are able to perform their work competently.
3. Goodwill trust, defined by open commitment and the willingness to do more than formally expected.

The first two, she claims, are present in both relationship models, but only the collaborative approach benefits from goodwill trust, and is hence of greater advantage than the traditional adversarial approach.

These models are, however, theoretical extremes. In a more practical approach, Smyth, Gustafsson & Ganskau’s study of 2010 found that as all contracts have relational elements, an element of [goodwill] trust is always essential for a fair exchange.

Smyth (2008) argues that as the contract grows ever more complete, the required level of [goodwill] trust diminishes (see Figure 2.1.2A). Therefore Saunders (1997) argues that traditional “arm’s length contracts” are built on a foundation of mistrust, or synonymously, the parties’ unwillingness to accept vulnerability.

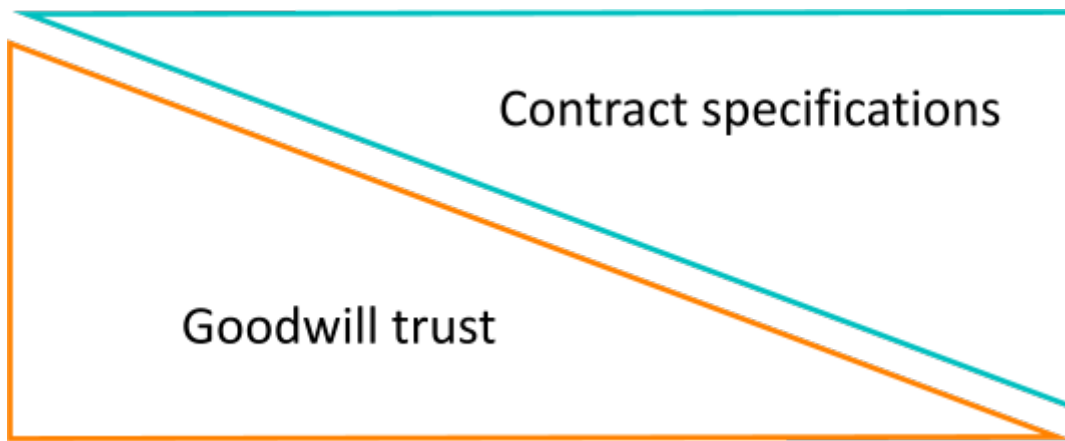


Figure 2.1.2A – Relations management mechanisms

Relational contracting is thus akin to an isolated domestic market (Gil et al., 2010; cf. Campbell, 1995), in that it leads to long-term relations and mutual dependence.

Emmett & Crocker (2006) base their work on the ethos that collaboration will bring benefit. At the same time, they also imply that not all companies are suited for this type of relationship, and argue that in order for collaboration to work, a certain corporate culture is needed, where both parties are willing to trust one another.

2.1.3 Adversarial and Collaborative Attributes

Ramsay & Wilson (1990) point out that literature tends to suggest that the choice lies between short-term multi-sourcing, accompanied by adversarial relationships, and long-term single sourcing, associated with collaborative relationships. Contracts designed for long and unpredictable projects should therefore specify how to solve problems, rather than presenting solutions in detail.

Saunders (1997) claims that relational contracts generally add more permanency to partnerships. Conversely, one might claim that the length of the contracts/customer relationship would indicate whether the contract is considered “relational” or “adversarial”.

For contracts pertaining to operations, maintenance and most modifications of building and construction in the oil sector, Osmundsen (2007) claims that where close coordination and co-localization is needed, traditional arm’s length-contracts will often, in practice, prove insufficient. In principle, this calls for relational contracting or vertical integration, which on the other hand may impair the project’s competition-based incentives.

Emmett & Crocker (2006) argue that the collaborative approach unites the supplier’s and buyer’s goals, and thus provides a clear advantage over the traditional adversarial model. They divide into four grades of relationships, ranging from “Arm’s Length” (adversarial) to “Partnership” (collaborative), and have outlined a comparison of attributes, when moving from adversarialism towards collaboration:

Adversarial relationships	Collaborative relationships
<p>Contracts: Short-term, Multi sourcing, Distant/Formal communications, Little commitment beyond contract, Info exchanged are orders, Trust not needed, Competitive-win/lose mentality, Command & Control-oriented</p>	<p>Long-term, Single sourcing, Collaborative, Involvement and “Shared destiny”, Shared info & strategy, Trust is essential, Win-Win-mentality, Open and Truthful</p>
<p>Price/Risk: Price dominates award criteria, One-way exchanges, Customer demands, Customer keeps cost savings, Supplier absorbs risks</p>	<p>Shared-destiny, Two-way exchanges, Data is exchanged freely, Mutual efforts towards cost savings, Shared Risks</p>
<p>Negotiations Self-oriented, Threat of substitution</p>	<p>Equality-based, Break/change is Difficult</p>
<p>Interpersonal Separated, Contract-based, Blame-culture, Contractual trust</p>	<p>Close in alliance, Relations-based, Problem solving-culture, Goodwill</p>
<p>Controls Formal and Rigid, Specification-oriented, Measure by non-compliance</p>	<p>Self-controlled, Flexible</p>

Table 2.1.3A – Adversarial and collaborative attributes
Source: (Emmett & Crocker, 2006)(*Modified by writer*)

2.1.4 Relations and Project-interaction

The choice of contract format should be considered with regard to the existing relations between the parties. For example, a traditional lump sum contract will spur little contact between the parties, and a clear distribution of formal responsibility. This implies that not only should the contract type be chosen on the basis of the existing relationship, but also that the type of contract will affect the future relationship between the parties. (Osmundsen, 2007)

Artto et al. (2010) conclude that the long-term business network (here exemplified as the Norwegian petroleum sector) and the short-term project networks interact. They state that sustainable competitive advantages of a whole business network occurs through selection and development of both collaborative partnerships and arm's length contractual relationships, while balancing the short-term and long-term views in the overall business, and from several firms' perspectives.

This would implicate that in order to maintain the Norwegian petroleum sector's competitive advantage, both the oil companies and the contractors must believe the relationships (award-methods) are balanced.

It is argued that the business relationships in these networks affect the selection of participating firms in a project (Hellgren & Stjernberg, 1995; Ahola et al., 2006). Experiences in the business network obtained during past projects may affect the selection of actors for a future project network – a phenomenon called “a shadow of the past”. On the other hand, expectations of future collaboration can be dubbed “a shadow of the future”. (Heide & Miner, 1992; Poppo et al., 2008)

2.1.5 Sustaining Partnerships

In practice, there are few sources quantitatively documenting the success or failure of relationally oriented projects. One study, by Ling et al. (2013) focusing on public Hong Kongese construction projects, concluded that relational contracting helped achieve significant success in quality performance and client satisfaction; however, not in budgetary- and schedule-keeping performance. Bengtson, Havila & Åberg (2001) found that also interorganizational relationships may survive after the end of a project, and actors would become dependent on each other.

Dore (1987) argues that Japanese enterprises are the most relational-oriented to date. He claims that although they seem to have a penchant for it, they are not uniquely susceptible to its success. He refers to evidence from the British textile, retail, and civil construction industries, which all have demonstrated success from similar practices.

Milgrom and Roberts (1997) and Helper and Henderson (2014) argue that General Motors has always been oriented around an adversarial approach, whereas Toyota has cultivated its relationships in a more collaborative manner. The latter argue that the reason General Motors faced bankruptcy was their inability to embrace relational mechanisms in their contracting strategy; whilst Toyota's success stems from their abilities in supplier collaboration.

On the other hand, relational contracting is said to blur juridical matters. Adjustments are perhaps made in the field, gladly without bureaucratic follow-up, and practice has shown this is not particularly beneficial when conflicts later arise. Some studies, such as those by Blonska et al. (2013) and Walker et al. (2013), argue that collaborative strategies are not translating into benefits for the parties, to the expected extent.

Dore (1987) hypothesizes that relational contracting is a phenomenon of affluence. When well-off customers become more quality conscious than price conscious, relational contracting emerges. This is partly due to the friendly and stable relationship naturally developing when price pressures and bargaining mentalities are loured.

On the Norwegian Continental Shelf (NCS) it has not been possible to enter agreements that base compensation on the awarding of new contracts. The procurement-directive in the EEA-agreement has demanded competition (Osmundsen, 1999). However, by weighting factors such as experience, quality and previous on-time deliveries higher than price, oil companies may affect the degree to which Norwegian contractors remain competitive. In 2013, the oil companies on the NCS were exempted from this procurement-directive, and their flexibility in choosing suppliers has been increased (ESA, 2013).

Depending on the complexity and scope of the project, contract award criteria are decided upon. Principals can thus weigh up risk in implementation, by building on a tested model in cooperation with contractors having extensive experience from the NCS. Another consideration could be total cost, capacity and the desire for increased competition between qualified bidders. The sum of these criteria decides award. (KonKraft, 2013)

2.1.6 Mixed Model

There have also been advocates for a mixed model. Erridge (1993) argues for a system where competitive tendering is used to source the most economically advantageous offer, before an effective partnership is cultivated for the course of the contract.

One of the main theorems of incentive-theory states that compensation formats should be tailored to the specific situation. A similar parallel can be drawn to the follow-up and relational strategy of each project. As Uzzi (1997) concludes: One should not, due to each methods' constraints on the company's ability to adapt, rely on either type alone, but choose a mix depending on the business environment.

In practice, Uzzi's recommendations are followed in the Norwegian markets. All contracts have relational aspects to them, to a larger or smaller degree. What remains unspecified is whether the balance of adversarialism and collaboration is optimal.

2.2 Development of the Norwegian Continental Shelf

In the late 1950's, few believed that there existed oil- and gas-deposits off the Norwegian coast. The official take was that there was none. However, with the discovery of the Groningen gas field in 1959, an enthusiasm emerged amongst private actors, that petroleum-reserves might be found further north as well. (OED, 2014)

In the autumn of 1962, multinational oil-companies, led by Phillips Petroleum, contacted the Norwegian government, asking for permission to drill in the North Sea. The year after, Norwegian supremacy was declared over the NCS, and in 1966, Esso started wildcat drilling in block 8/3 with the rig "Ocean Traveler". (NRK, 2009; Riksarkivaren, 2013; OED, 2014)

Politicians showed little interest in the Norwegian Continental Shelf before the Ekofisk-field was discovered in 1969. Spurred on by the EEC-debate in 1972, parliament showed great determination in securing Norwegian interests offshore. Following this line, Statoil and the Norwegian Petroleum Directorate were founded. (Nerheim, 2005)

2.2.1 Collaboration in the Norwegian Oil Sector

In the early '90s, the oil sector of Norway needed new cost-reductive measures to make new fields profitable. Hence, in order to find organizational and contractual solutions, reducing costs and spent hours, NORSOK was founded. The focus here was on reducing development time of new fields, to lower costs. (Tønnesen, 2008)

In line with the prevalent thinking of the time (ref Chapter 2.1.1), the answer was more collaboration between oil companies and suppliers. Throughout the market, preference was changing from adversarial contracting towards relational contracting, and this, in turn led to contractors assuming control over the coordination of subcontractors, spurring the formation of large EPC-companies such as Aker, Kværner and Aibel. (Haagedorn, 1993; Boddy et al., 1998; Bresnen & Marshall, 1998; Osmundsen, 1999; Sakal, 2005)

Consequently, terms could be agreed upon much sooner for each mission. In large engineering projects, many of the contracts between the client and the supplier have to be necessarily incomplete because project requirements are characterized by uncertainty and ambiguity, exacerbated by the long project time scales. (Gil et al., 2010)

As a result of this collaboration, a so-called "business network" developed. A business network is defined by Artto et al. (2010) as "a permanent constellation of actors that are or could be involved in each other's current or future project activities." This is what we know today as the "Norwegian petroleum sector".

These networks depend upon and, in turn, selectively reinforce existing relations of power and influence (Bresnen & Marshall, 2010). Barlow et al. (1997) found, studying UK markets, that the companies encouraging consolidating trends were usually the large principals with extensive and regular capital outlays for construction [e.g. oil companies], and major contractors hoping to secure ongoing streams of work, by entering into long-term relationships with them.

The Norwegian oil companies and contractors were thus complementarily reinforced by their commonly shared goals. As Davis and Walker (2008) argue, where involved parties in the

business network have synergetic aims, there are positive conditions for partnership and collaboration.

2.2.2 Results of Collaboration

As a result of this shift towards collaboration, there were significant reductions in production-time. This, however, means that less information was available when the contract was signed, and so the relative significance of the “tacit agreement” grew. (Osmundsen, 1999)

Osmundsen (1999) argues that in a market as surveyable as the Norwegian petroleum-industry, a breach of confidence may lead to repercussions such as a) a loss of future work or deliveries, b) worse conditions for companies with a worse reputation, or c) reduced flexibility between the parties in the implementation phase. (cf. Klein & Kenney, 1985)

2.3 An Introduction to Statoil

2.3.1 Foundation

Statoil was founded as “Det norske stats oljeselskap” in June 1972. This new company was one of the Norwegian government’s instruments to ensure that a national oil-industry would grow to compete with the international giants, both commercially and technologically. (Nerheim, 2005)

The company entered 1973 with 2 employees. Statoil grew rapidly, given preferential treatment by the government, and was in 1982 a fully integrated oil-company with more than 1000 people on the payroll. As the company grew, the debate of whether Statoil was becoming too powerful emerged. The conservative Willoch-government believed so, and toned down the favouritism, so that other the Norwegian oil-companies, Norsk Hydro and Saga Petroleum, were given similar treatment. (Nerheim, 2005; Ryggvik, 2015)

In 1988, Harald Norvik replaced Arve Johnsen as the leader of the company, and shortly thereafter, clear signals were given to Norwegian contractors that no special treatment should be anticipated in the awarding of contracts. Simultaneously, from 1985 to 2001, a steady process underwent, with the aim of disintegrating Statoil from the Norwegian state. (Gravdahl, 2007; Ryggvik, 2015)

This eventually culminated in Statoil’s listing on the Oslo Stock Exchange and the NYSE. (OED, 2014) Following this change, the aim of profitability is seen to have entered the introductory texts of the annual reports. As former CEO Olav Fjell wrote in the company’s annual report of 2000:

“Today we compete on an equal footing with other companies for new tasks on the NCS. Our objective is to be as efficient and profitable as our best competitors.” (Statoil, 2001)

In 2001, Fjell made clear that the company’s role as a society-builder had been handed back to the government, and that Statoil’s objective was of profitability and international conquering:

“That role as instrument was over some time ago. The changes to the ownership structure were therefore a natural step to strengthen our ability and our chance to exploit the many business opportunities we have in a national, and increasingly international perspective.” (Statoil, 2002)

2.3.2 Internationalization

Statoil has from the outset been involved in foreign ventures. In 1972, the company obtained part-ownership in projects on the British and Dutch shelves, and also acquired interests in onshore exploration-projects in Spain. (Tveit, 1973)

The company introduced international joint ventures with British Petroleum (BP), but these were terminated when BP acquired Amoco, an American oil company in 1998. Mergers were a popular trend throughout the '90s to respond to the low oil price. The market was shifting, and the formation of larger and more powerful actors also had implications for the Norwegian contractors. (Lerøen, 2002; Høsøien, 2004)

Eger (2008) argues that Statoil's acquisition of Saga Petroleum in 1999 was the turning point for the Norwegian idea on how to govern its resources. One had believed that three independent environments (state, semi-state and private companies) should manage Norwegian petroleum interests, but these could not compete with the massive international forces amassing, spearheaded by the merger between Exxon and Mobil. (Andersen, 2001)

In 2000, The Board of Directors of Statoil wrote:

“International upstream operations represent a necessary continuation of the group's position and expertise, and will be critical for its ability to grow beyond the productive life of the Norwegian continental shelf.” (Statoil, 2000)

Some thus claim that the desire to privatize Statoil was partly founded upon the idea that state ownership impaired the company's ability to attract international partners, which would further weaken the company's potential for development - on the basis of public companies' tendency to inhabit weaker incentives to maximize profit. This is closely linked to the company's ever-latent ambitions to expand internationally (Grønlie, 2001; Andersen, 2001; Noreng, 2001; Norheim, 2003).

The company's listing did not immediately lead to international conquering. In 2004, Statoil's foreign revenues counted only for 11%, and its rival, Norsk Hydro was facing the same problems. (Ryggvik, 2015)

2.3.3 The Merger

In 2007, on the first day of October, StatoilHydro was formed – a fusion of the two largest Norwegian companies on the continental shelf. Statoil was the dominant company with 25000 employees, and Hydro had approximately 5000. The arguments supporting the fusion were of increased potential of value-creation and the possibility of obtaining larger international contracts. (Statoil, 2007; Ryggvik, 2015)

Barstad (2009) claims there were certain differences in company culture before the merger. The former Hydro was a more efficiency-oriented organization, where leaders made quick and autonomous decisions, and once it was made, it was expected to be accepted by the employees. Conversely, Statoil is claimed to have been more democratic, and that all decisions should be deeply rooted in organizational values. She characterizes Statoil as having a “softer” culture, whereas Hydro’s was “harder”.

To ensure a smooth transition, new standardization-procedures were made. The vision was that these new standards would draw on both companies’ best practices, to create an overall improved company, enforcing the idea of an entirely new identity. This would allow the Statoil leadership to break with unwanted norms and tendencies that hindered the company’s competitive power-potential. (Szumilas & Stensaker, 2009)

2.4 Present Market Situation

2.4.1 Statoil

The company has developed further since the early 2000s. In 2014, Statoil was represented in 30 countries and territories, and 39% of the company's equity production came from international activities. It is still the leading actor back home, operating approximately 70% of all oil- and gas-production on the NCS. (Statoil, 2015)

The company employs 22 500 people worldwide, and continues to be one of the most attractive employers among Norwegian students (Statoil, 2015; E24, 2014).

Statoil's largest owner is still the Norwegian State, with a direct ownership of 67%. However, the State has no appointed board members or members of the corporate assembly (Statoil, 2015).

This ownership solution, as well as the statements presented in the annual reports throughout the 2000s, would indicate that the State and Statoil have indeed separated politically, if not economically. The company is now fully committed to its shareholders. As stated in the annual report of 2014:

“Statoil enters 2015 with a robust financial position, strong operational performance and is well prepared to meet the volatility in the markets and the demanding situation for the industry. The strategy remains firm and Statoil is reinforcing the efforts and commitment to deliver on the priorities of high value growth, increased efficiency and competitive shareholder returns.”
(Statoil, 2015)

2.4.2 The Industry

From 2000 onwards, the Norwegian service and supply industry benefited from a continuous rising oil price. This culminated with a particularly marked growth of petroleum related investments in 2013. (Prestmo et al., 2015)

In 2012, the specialized and high tech service and supply industry employed about 125 000 people all over the country. IRIS (2015) estimates that 330 000 employed persons could be linked to the overall activity in the petroleum industry. To compare, approximately 27 000 people work in the oil companies specifically. The industry consists of more than 1250 companies across the entire value chain, and about 40% of the revenues generated in these companies originate in international markets. (OED, 2014)

However, the global economic development was weaker than expected in 2014. At the same time, a mild climate and competition from renewable energy lowered the demand-growth for oil and gas. Meanwhile, oil-production from non-OPEC countries, particularly shale oil output in the USA, ensured a strong increase of supply. (McCain, 2015; Petoro, 2015; Mearns, 2015)

The resulting imbalance of supply and demand led to a sharp fall in oil price in 2014. The price of Brent Crude oil in December was halved by that of June. Concurrently, costs have risen sharply over the past decade in all parts of the industry. There was general consensus

that this trend was unsustainable, and a substantial commitment was made to enhance efficiency and reduce the level of costs on the NCS. (Petoro, 2015; Nasdaq, 2015; Mearns, 2015; Statoil, 2015)

Big oil companies have changed their commercial goals from volume growth towards financial parameters, such as cash flow and dividend. This has induced stricter profitability requirements for new projects, and several are being dismissed, postponed or reduced in scope (Handscomb et al., 2014; Petoro, 2015).

This has led to a slowdown of investments; fewer contracts are awarded, resulting in hardening competition. Consequently, several service- and supply-companies face restructuring, and some are currently in the process of reducing their workforce to respond to the market. It is estimated that 30 000 jobs will be lost as a result. (SSB, 2015)

The new competition has highlighted the competitive influence of international suppliers, and Norwegian media continue to report that several important contracts are being awarded to contractors abroad. In 2013, Norwegian actors acquired contracts with a total value of 13,6 billion NOK. Asian contractors were awarded 37,6 billion. This further tightens Norwegian suppliers' economic outlook. (Qvale & Stensvold, 2013)

Jan Arve Haugan, President and CEO of Kværner, claims that Norwegian suppliers are already superior in delivering on time and on quality, and that the extra costs related to variations and delays incurred by placing projects abroad ensures superior Norwegian cost-effectiveness as well. This is corroborated by a report generated by Rystad Energy. (NRK, 2015; Stensvold, 2013)

Statoil disagrees, with basis in their experience of previous awards and projects. The Norwegian Petroleum Directorate concurs, stating that these cost overruns are a result of lack of project follow-up by the operators, rather than the contractors' location. Nevertheless, all parties agree that Norwegian contractors must still continue to become more cost-effective looking forward (NPD, 2015; NRK, 2015).

Several actors (e.g. The Norwegian Minister of Petroleum and Energy Tord Lien, Professor of Petroleum Economics and former Corporate Chief Economist of Statoil Klaus Mohn, and The Norwegian Petroleum Directorate) claim that this financial slump may prove to be beneficial for the industry in the long-term, ensuring its competitiveness and robustness in a global market for years to come. (Aakvik, 2015; Aarø, 2015; NRK, 2015)

Others fear that unless actions are taken, the Norwegian petroleum industry will deteriorate. However, some have proposed strategies to ensure Norwegian competitiveness. Jan Skogseth (CEO of Aibel) refers to the aforementioned report by Rystad Energy, saying that this indicates Norwegians' potential of securing future contracts. However, he also believes that offshoring certain engineering and fabrication-tasks will be necessary. This strategy helped Aibel attain a lucrative EPC-contract of the upcoming Johan Sverdrup field. (Stensvold, 2013; Andersen, 2015)

In the years of 1995-2005 the British service and supply business faced an era of offshoring and diminution. Several experts are worried this might happen in Norway as well, should no long-term strategy be established to secure the survivability of the industry. Today, the British supply industry is trying to rebuild, drawing on Norwegian firms' competence to do so. Meanwhile, the British government is granting tax-lifts to their oil companies to spur this

growth. In Norway, both Statoil and the government agree that tax-breaks are unwanted to “save the industry”. (NRK, 2015; Osmundsen, 2015)

Osmundsen (2015) claims that Statoil is exploiting the strained financial situation to avoid maintaining certain mature fields; as opposed to encouraging tax breaks, that would help sustain a certain level of activity on the NCS. This implies that not only have Statoil and the society separated politically; they are, in a sense, at odds with each other.

2.4.3 The Relationship

Recently, people are starting to debate Statoil’s role in society. Concerns have been raised that Statoil have grown too powerful on the NCS, and that suppliers as a result refrain from criticising the company, to avoid repercussions. (Hansen & Engen, 2015)

Some scientists claim Statoil have become a more closed organization, with their social responsibility waning. They maintain that juridical control and finger-pointing is replacing trust and openness in governing the company’s relationships; the common understanding is replaced by instructions and contracts. Elements within the company is characterized as behaving “arrogantly”, and suppliers fear voicing their opinions, lest they be ostracised (Seglem, 2015; Lewis & Skarsaune, 2015).

Statoil’s director of procurement, Jon Arnt Jacobsen, does not recognize the characterizations above, and is backed up by other suppliers, who believe that Statoil has turned towards being more open, friendly, and more willing to work closely with its suppliers. (Skarsaune, 2015; Stavanger Aftenblad, 2015)

CHAPTER 3 - The Problem

3.1 Scope

The success-story of the Norwegian petroleum industry is quite remarkable, and it is clear that the oil companies (led by Statoil) have played an important role in shaping the supply industry as we know it. The close relationship between principal (oil companies) and agent (suppliers) have been of great importance in attaining the global recognition these Norwegian companies have today.

With the recent developments in the Norwegian petroleum sector as a backdrop, this thesis seeks to highlight the direction in which relations are changing, between the oil companies (represented here by Statoil), and their suppliers.

Deciding which time-interval to investigate requires a balancing of two factors: A longer period would more easily allow determining whether changes have actually occurred. A shorter interval allows more rigorous investigations as to the reasons behind them.

Based on the historical evolution of Statoil, and the recent changes in corporate structure and culture (cf. Chapter 2.2-2.4), this thesis will focus on the sesquidecade of 2000 to 2015 to provide sufficient grounds to address both these factors.

The scope is limited to study Statoil's relation to the larger Norwegian EPC-companies, as these are currently under considerable pressure by foreign competitors. As several sources have thus claimed, this industry will need to incur (and is currently undergoing) elaborate restructuring in order to survive. One could therefore assume that these agents might have experienced a more distinct change in relational practice than other, less affected markets.

Therewith, our study questions are precisely formulated as follows:

1. "How have relations changed between the oil companies (represented by Statoil), and their suppliers (represented by the large EPC-companies), in the time-span of 2000-2015?"
2. "What are the reasons behind, and implications of these changes?"

3.2 Methodology

3.2.1 Choosing a Research Strategy

There are, according to Robert K. Yin (2003), five ways of doing social science research: Experiments, surveys, histories, analysis of archival information, and the case study. Each of these strategies has its own unique advantages and disadvantages, and should be chosen based on a set of factors pertaining to the assignment.

Researchers have divided studies into different categories: Exploratory studies, descriptive studies and explanatory studies, and some claim that the case study-method should only be used for the exploratory, which is often the first phase of the investigation. Yin, however, argues that it is not the objective of the study that should determine its method, but rather its nature, and that each strategy may work well for all categories. (Yin, 2003)

The first factor to consider when choosing a research strategy is the type of research question posed. These are categorized by which interrogative is used.

The second factor is whether or not the investigator is in control of behavioural events, as for example in a laboratory setting.

The third, and last, factor is whether the study focuses on contemporary events, or wishes to illuminate historical events.

COSMOS Corporation summarizes this in the following table, to quickly allow for pinpointing the optimal research strategy:

Strategy	Form of Research question	Requires control of behavioural events?	Focuses on contemporary events?
Experiment	How, Why?	Yes	Yes
Survey	Who, What, Where, How many, How much?	No	Yes
Archival analysis	Who, What, Where, How many, How much?	No	Yes/No
History	How, Why?	No	No
Case study	How, Why?	No	Yes

Table 3.2.1A - Pinpointing the optimal research strategy
Source: (Yin, 2003)

As explained previously, my objective is to illuminate the evolution of the relations between buyer and supplier in the Norwegian petroleum market. In accordance with Yin's advice, this could be rephrased: "*How* have relations between buyer and supplier developed, and *why*?"

Hence, comparing to Table 3.2.1A above, we see that the “Experiment”, “History” or “Case Study” strategies are recommended approaches to answer these questions.

As the investigator has no control over behavioural events of this study, the experiment-research strategy is ruled out.

We see from Table 3.2.1A that the case study answers the same questions as the history, but seeks to highlight contemporary events. We seek to capture today’s image of how relations are perceived, and so the history would fall short.

The case study’s strength is to include a variety of evidence: Documents, artefacts, interviews and observations. Andersen (1990) emphasizes that the case study is well suited for explaining complex causal situations.

However, to limit the scope, this thesis will employ document analysis and interviews, and attempt to combine these into a holistic and elucidative study, employing the case study model.

3.2.2 The Case Study

The case study is defined by Yin (2003) as:

“An empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”

Expanding on this, Yin explains that one would use the case study, should one wish to deliberately cover contextual conditions, as these may be of high pertinence to the study. This implies that various data-sources are needed to circle in a conclusion. These are the situations in which the case study finds its niche, and where it is the optimal research strategy.

A critical part of the case study (to ensure the research’ validity) is to employ multiple sources of evidence. This study will respond thusly by founding its propositions on established concepts from supply chain management and contracting- and incentive-theory; we shall use the historical development of principal-agent relations as a backdrop, in order to understand the current situation.

Any subsequent conclusions will be founded on the combined data gathered from literature, academic publications, mass-media, corporate documents, and interviews. This is done to obtain a broad view (where the global nature of an environment is concerned), and to avoid misrepresentation of data.

This study will present a multiple-case analysis rather than a single-case analysis. Employing a fundamental principle in risk management - spreading one’s eggs in several baskets - will here ensure that the validity of the analysis remains solid; in accordance with Herriot & Firestone’s (1983) claims, that the evidence from multiple cases is often considered more compelling, and the overall study therefore will be regarded as more robust.

It should be noted that the scope of this thesis prevents exhaustive investigation of each case, and a certain degree of subjectivism is to be expected from the respondents. The resulting

inaccuracies are attempted curbed (ensuring that the external validity of the study is maintained) by replicating the questions posed to the interviewees, and summarizing these in the form of a survey. This allows for pattern matching across the board, but could also be an effective measure to disprove the existence of a general trend in the market, should the answers fluctuate widely; also, nonconformities (possible misrepresentations) are quickly identified by use of this method.

3.2.3 Quantitative versus Qualitative Methodology

Employing a quantitative approach forms, according to Grønmo (1996), a weak foundation to build an understanding of complex processes. The case study is hence unsuited to match with this approach. A qualitative strategy, on the other hand, may offer deeper understanding of dynamic relationships, structures and variations of patterns, but requires closeness with the data source. (Andersen, 1990; 1997)

This study's objective is to describe a complex situation, including many variables and social environments. Moreover, the experiences and opinions of the respondents will have been founded over several years, with influences from numerous projects and interactions, necessitating systematic elaboration.

One major hazard of using the qualitative approach is that of investigator bias. Being aware that personal ideals or preferences may cloud one's interpretations or conclusions will be important in the process of data collection and analysis. However, Yin (2003) still maintains that the qualitative strategy is very well suited to analyse situations pertaining to organizations and their activities.

This thesis, therefore, employs a qualitative approach generally, but seeks to substantiate this data with measurable factors, established terms, statistics and data from former reports. It further seeks to categorize the answers of the respondents by use of a survey, with the purpose of presenting findings in an orderly and traceable fashion through graphical argumentation. The purpose of a qualitative analysis is, according to Leiulfstrud & Hvinden (1996), to find patterns or connections on the basis of the available data. Employing visualised graphical representations will demonstrate this in practice.

3.2.4 Sampling and Presentation

In a qualitative study, the number of samples is of less importance than a quantitative study. Here, sampling rather continues until the researcher senses “saturation of information” is reached. One of the major differences is that for qualitative studies, the researcher relies on purposeful and targeted sampling, and in quantitative studies, one relies on probability sampling. (Sandelowski, 1995)

Saturation is a term first used by Glaser & Strauss in 1967. It was further cultivated by Bertaux in 1981 to implicate the state in which the researcher can recognize a pattern in the answers given by the respondents, and thus the desired end point of data collection (Box, 2012). Sandelowski (1995) found that in certain cases, 10 samples may be adequate for certain situations, whereas for others, it may not.

Desired sampling size is set to 10. These individuals, with ample experience from the oil and gas industry of Norway, are interviewed for one hour each. To highlight the matter from various perspectives, these are chosen both from within Statoil, as well as the company’s external environment, with a balance of 5/5.

The theories reviewed in Chapter 2.1 will be used to create our “unit of analysis” (cf. Yin, 2003 pp. 22-25), to describe relational change. We shall try to operationalize the attributes of “adversarialism” and “collaboration” (particularly those of Emmett & Crocker, 2006) to form probing points for data harvesting, and use these terms as a basis for comparison.

The results will thence be presented following the same line of thinking in Chapter 4. Transcripts in their unabridged versions are presented in Appendix C, to allow backtracking. Studying these in their full form may provide some depth and clarity as to the mindset and reasoning of the particular interviewees, which is harder to recognize in the summarized presentation of Chapter 4. Reading these is recommended, to obtain a deeper understanding of all parties’ perspective.

The interviews are conducted in a semi-structured fashion (cf. Harrell & Bradley, 2009 pp. 23-78), to allow for the interviewees to speak freely, whilst at the same time allowing the researcher to ask relevant follow-up questions. This will allow for comparable answers, as well as the accomplishment of theoretical saturation.

As some of the subjects are high-profile personas in the oil- and gas-sector of Norway, all statements will be anonymized, and respondents will be referred to by pseudonyms, in accordance with the advice of Odendahl & Shaw (2002) and Thomson et al. (2005).

The full interview guide, survey questions, along with a brief portrayal of the interviewees, is presented in Appendix A. Formulas and reasoning which form the source of the graphical representations are presented in Appendix B.

3.2.5 Reasoning

There are two ways to obtain knowledge from an analysis: Induction, where several observations lead to a general conclusion; and deduction, determining concrete empirical consequences on the basis of a general theory. (Krishnaswamy et al., 2006)

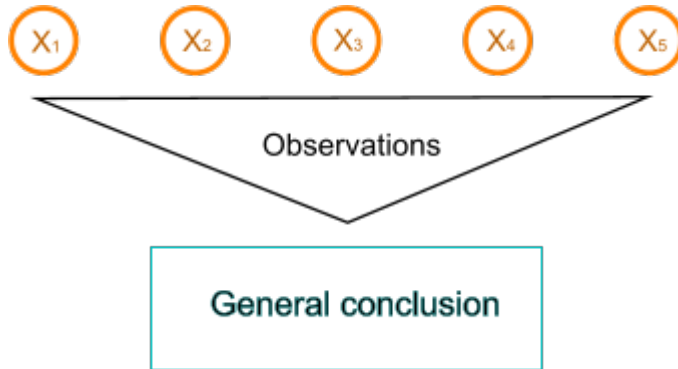


Figure 3.2.5A - Induction

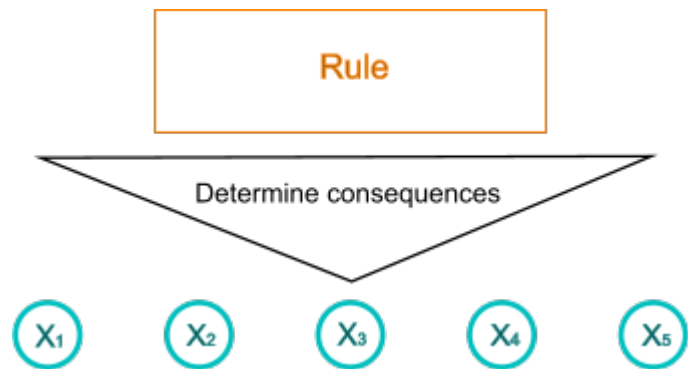


Figure 3.2.5B - Deduction

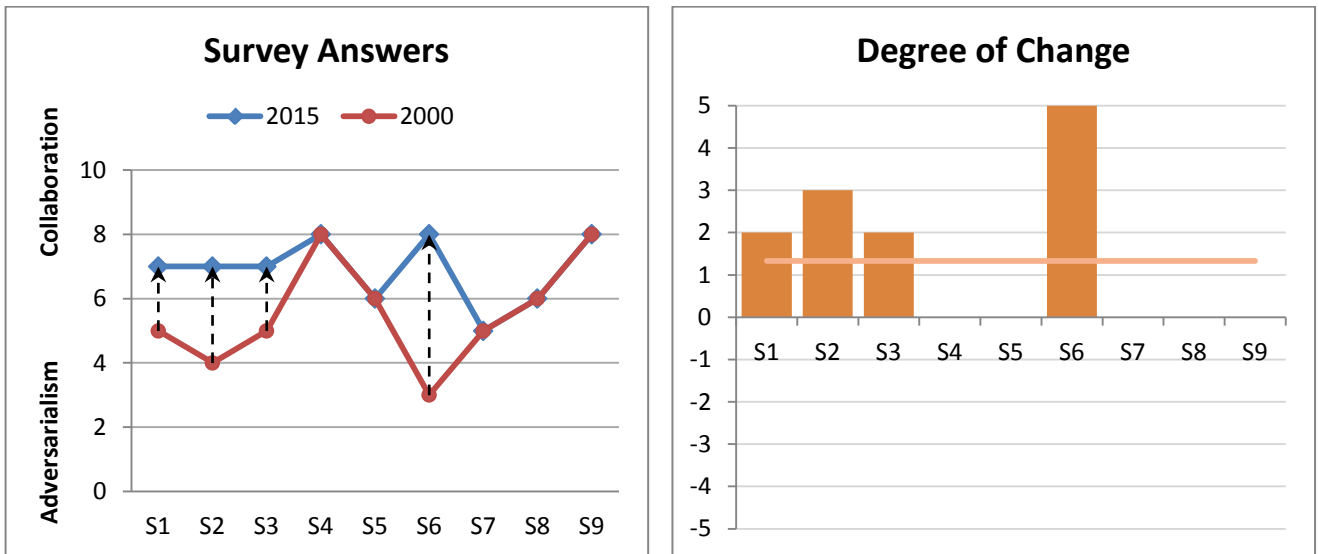
In line with case study methodology-theory and common practice, all conclusions will be formed from a holistic and qualitative inducement of all gathered information.

CHAPTER 4 – Results and Discussion

One of the participants from Statoil had to withdraw from the study. Believing, nonetheless, that satisfying saturation of information is obtained, this is assumed to not significantly impact the validity of the following.

Question 1 - Contract Duration

(1) Contract durations are short / Contract durations are long (10)



We observe from the graphs that the blue line is coherently above the red line. As highlighted in the bar-graph, Subject 1, 2, 3 and 6 believe that contract durations are longer in 2015 than in 2000. The others believe there has been no significant change.

Subject 2 (abbreviated S2, for referencing) argues that part of this trend is due to a change of practice, where Statoil, as opposed to issuing numerous small contracts, increasingly operate with framework agreements in certain market segments, which may also include options of 2+2 years.

Subject 1 and 6 believe this trend is due to Statoil's wish to cultivate long-lasting relations with, and reward, well-performing suppliers. This is done by use of KPI-ratings, which form the grounds for deciding whether to invoke the option to extend, or terminate the relationship upon contract expiration. It is believed this trend signals a revitalized desire to build long-term working relations.

The other respondents maintain that contract duration depends more on other factors, such as project scope, complexity, cost/plan-prioritization, and the market in general. The relational aspect between the companies is claimed to play a minor part in this area. (S5, S7, S9)

Subject 7 argues that for some other market segments, one has actually seen a shortening of contract duration, where standardization and enhanced knowledge has diminished the need for lengthy processes. When this will happen in the EPC-market, one might expect the same trend.

Subject 8, believes durations themselves has not changed, but that Statoil is cultivating its relationships in a more deliberate manner, in which relevant suppliers are invited to communicate strategy and ideas, allowing them to position themselves for future work.

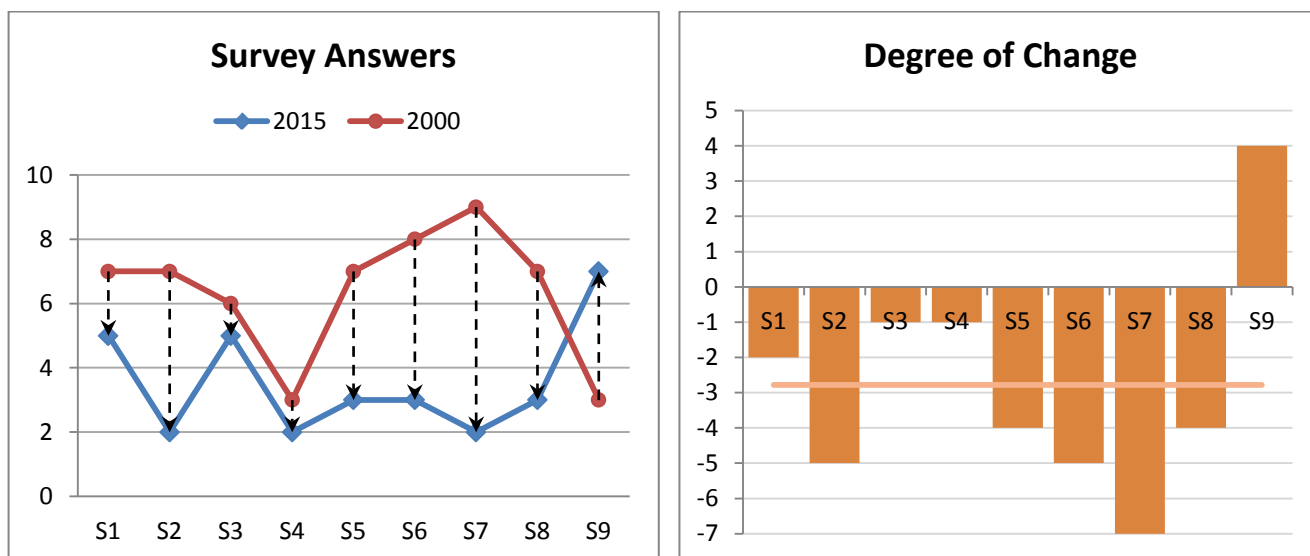
The current strategy of vision-exchange with relevant suppliers, and the perceptions of our respondents would indicate a recent shift towards the collaborative. The statements correspond to the idea that long-standing relationships would be cultivated under this strategy. This would allow Statoil to have close access to suppliers familiar with their customs and preferences. However, the downside is that one restricts one's "buyer power" (cf. Porter, 1979; Porter, 2008), by reducing the number of suppliers able to compete for certain projects. Today's market situation facilitates this approach, as suppliers would face dire consequences should their tender-offer lack competitive power.

It is somewhat difficult to objectively measure any development here, as indicated by the graphs above. This is assumed to be due to the long duration of contracts, that projects are mostly organized by stand-alone agreements, etc. It is argued that here, one should not measure relational change by "duration", but should rather use "intention" to signify trends.

When "intention" rather than objective "duration" is concerned, a recently emerging shift towards the collaborative attribute is observed.

Question 2 - Market Situation

(1) Many are invited to compete / Few are invited to compete (10)



In varying degrees, all but one subject believe that the market has intensified by increased number of suppliers, and thereby the number of actors which are invited to compete for work is higher.

This trend is largely due to the globalization of the markets, in which particularly Asian/Korean companies have made their presence known. (S1, S2, S5, S7, S8).

Although in agreement of the actual proceedings, suppliers' and Statoil's employees have varying perceptions of the processes that spurred this market-merging. (Note that Subjects 1-5 are representatives from supply companies, and Subjects 6-9 are representatives from Statoil).

It is claimed that the oil companies have granted EPC-contracts to Asian companies which have excelled at the C (construction)-part, but lacked completely in Engineering and Procurement-capabilities (S1, S4) This strategy implies that Statoil has used unprofessional EPC-contractors to pressure professional ones, particularly Norwegians, to force a reduction in market price. (S1)

Statoil employees' perspective is that Norwegian companies increasingly lacked the necessary capacity to respond to oil companies' needs. As the oil price kept rising throughout the 2000s, more and more fields were planned and developed. As capacity was filling up, the argument of bringing in foreign suppliers to satisfy demand strengthened. Consequently, since the year 2000 we have observed the merging of these markets, and hence, an "internationalization" of the Norwegian market. (S7, S8, S9)

Subject 2 brings up another factor that explains this trend. More and more suppliers have grown from other industries towards the oil sector. The consolidation of smaller companies through mergers and acquisitions has further intensified the pressure on small businesses.

Subject 9, being the only respondent believing that fewer companies are invited to tender for specific contracts, agree that the market has grown and intensified through globalization.

However, Statoil, in the last sesquidecade has gotten to know its suppliers better. As a result, the company now invites fewer contractors to tender, more specialized to deliver the needed product.

Some subjects believe the drop in oil price now will induce broader usage of the EPCM-format (cf. NRF, 2013). It is believed that Norwegian actors will have a clear advantage here. (S1, S6)

Subject 1 maintains that the “adversarial-pendulum” seems to have reached its apex, and companies’ willingness to collaborate will take hold. This corresponds to the dominating arguments of Question 1.

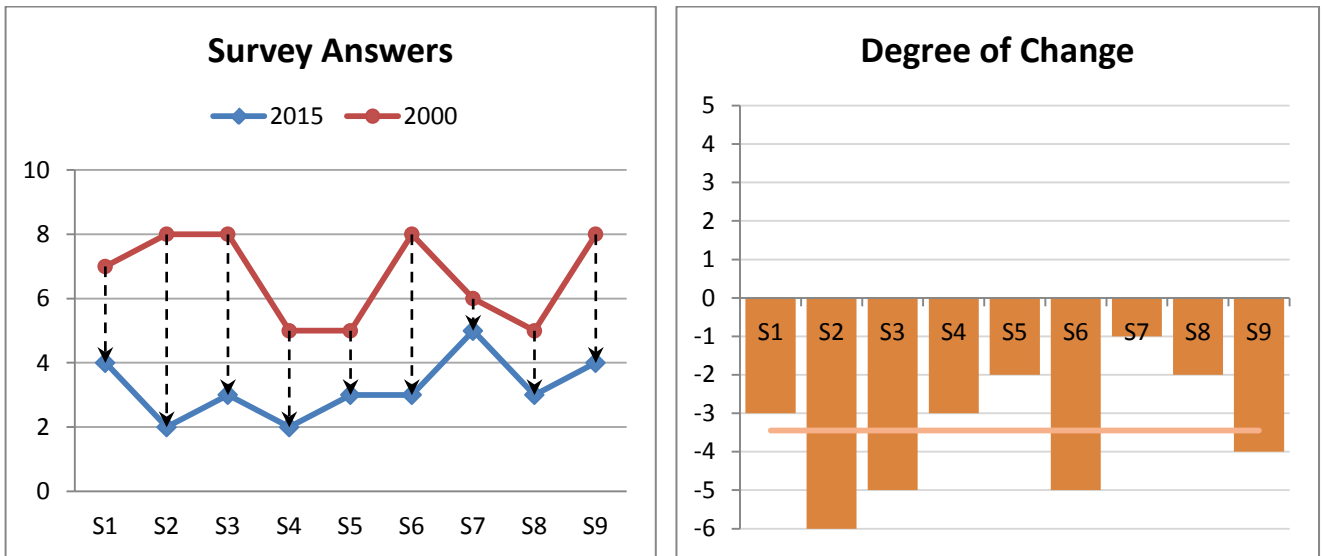
Nevertheless, the current data indicates clearly that the Norwegian market suffers from a surplus of suppliers, some of which have their base in foreign countries. Particularly the Korean corporations pressure Norwegian contractors to reduce their offering prices, in effect reducing their “supplier power”. One could, however, argue that this was allowed to become too strong throughout the 2000s, and that the current market situation again favours the oil companies.

One might therefore argue that suppliers have not facilitated a collaborative approach in the last sesquidecade, as the oil companies have found themselves increasingly pressured economically. Costs have been allowed to rise (although there are many reasons for this), and as a result, the parties have lived in unbalance since the ‘90s. Whichever party has been dominant is not perceived to have “shared” in his gains, to lay the foundations of collaboration.

The merging of global markets has contributed to a relational shift towards the adversarial, between Statoil and its Norwegian suppliers.

Question 3 - Formality of Communication

(1) Communication is formal / Communication is informal (10)



As clearly shown by the graphs above, all subjects believe there has been a substantial shift towards the adversarial attribute, when it comes to communicational formality between the parties. This is one of the key aspects in assessing the nature of an interorganizational relationship.

Respondents experience different dimensions of this change. Subject 5 describes it as more of a structural transformation than of the interpersonal. Statoil has, in the last fifteen years, increasingly handed over the role as “Project Manager” to the EPC companies. Before, they managed their sub-products themselves. This introduces the need of formalization, to avoid conflicts in the aftermath, allowing commercial forces in the organizations to grow in importance. (S5)

Subjects 6 and 7 argues that there are many layers of the project organization where the communication is still quite informal, and problem solving and the approach to which these employees address suppliers has not changed on a day to day basis.

However, Subjects 6, 8 and 9 believe that a “tidying up” of Statoil’s relationships was needed, and that Statoil has undergone a process, throughout the last sesquidecade, to systemize its suppliers. Consequently, its relations are more orderly than before; and clearer lines of authority and accountability has resulted.

Subject 3 believes this has led to more bureaucracy, with massive project organizations on both sides, producing documents which are sent back and forth. It is argued that whatever cost savings resulting from this formalization are consumed by upholding these control mechanisms. Subject 7 and 8 have not experienced increased bureaucracy, and are doubtful of these claims.

It is argued (by S8) that Statoil’s internationalization, and dominant position, demand more attention directed towards commercial aspects. It is believed more people are working on “self-awareness matters”, such as the company’s image, and one’s own market-situation, which have been more organically managed before. Subject 9 claims that in order to be

competitive in a hardening international market, the company must further its formalizing processes, and enhance its commercial competence.

The suppliers, particularly, believe that an internal cultural shift has encouraged this change. Subject 2 points to the fact that 15-20 years ago, Statoil was a company with many employees recruited from the service and supply industry. Many of their technical personnel understood the challenges of production and delivery, and contractors were, to a greater extent, met with insight and understanding.

This allowed for open and solution-oriented discussions, whose objective was to jointly solve the task at hand. (S2) Since, it is observed that Statoil has recruited a larger percentage of theoreticians, in lieu of practitioners. Where the company's leaders formerly had technical understanding, they are today commercially oriented. (S1)

A "generational change" is described, where the younger representatives inherit a much more commercialized mindset than their predecessors (S1). This is corroborated by Subject 2, who correlates "the tendencies of arrogant attitudes" negatively to age.

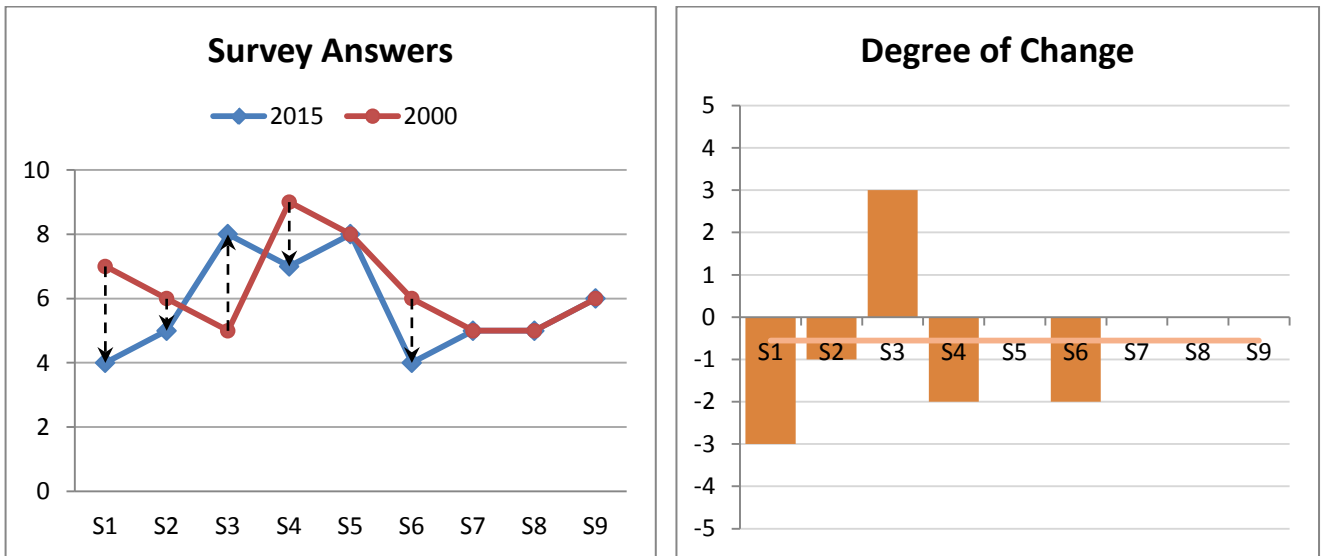
An emerging trend is observed internally, where Statoil's employees desire more "clinical" relationships with the company's suppliers. However, Subject 8 perceives this as an ideological shift, which has not yet properly manifested itself in practice. Subject 1 and 4 believes this is already happening in reality, and that it has clearly enlarged the relational distance between the parties. They worry that one could lose the synergy that has existed between them.

The competitive advantage of the Norwegian suppliers is their flexibility and adaptability. Where others follow instructions, Norwegians ask questions. This investigative (and some say obstinate) quality has ensured the development of one of the most technically advanced industries in the world, as the optimal solution is always sought. Although this takes longer time to produce than formerly known specifications, it has ensured that R&D is not only done in universities or designated departments; it is conducted throughout the organization. One might argue that losing the synergy between principal and agent would severely impact the parties' capability of introducing groundbreaking ideas in this manner – one would lose the benefits pertaining to the egalitarian culture characterizing Norwegian companies.

The qualitative data suggests, corroborated by the very high degree of quantitatively measured change (averaging $-3,44$) that Question 3 indicates a significant change towards formality and adversarialism.

Question 4 - Face-to-Face Meetings

(1) Few face-to-face meetings / Many face-to-face meetings (10)



Respondents somewhat disagree whether face-to-face meetings have increased or decreased in frequency. Subject 1 and 4 argue that the developing commercial focus described in Question 3 (abbreviated Q3, for referencing) has led to a reduction in face-to-face meetings. Requests and queries are made electronically to a larger extent.

Subject 6 believes that, in some parts of the organization, meetings have decreased in frequency as a result of technical progress, while in others, it is equal to before. Testimonials from Subjects 2 and 5 corroborate this claim.

Subject 3, conversely argue that meetings are held increasingly, as a result of more bureaucracy. However, these meetings do not necessarily include the right people, and is part of the “build-up of massive project organizations” which is observed throughout the 2000s.

In contrast, Subject 9 believes that meetings are more structured and defined than they were previously, and that Statoil is now, to a larger extent, able to influence all parts of the contractor-organization. However, face-to-face frequency is believed to be generally the same as before.

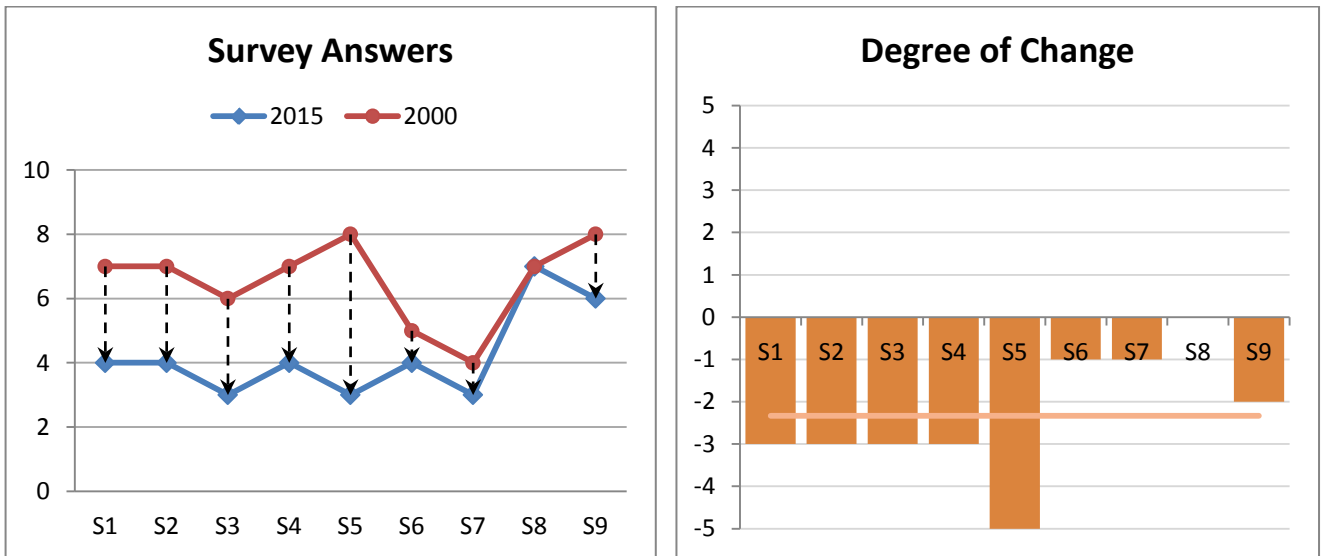
Considering professional meetings, Subject 8 does not believe there has been any particular change. However, social gatherings, informal dinners and parties, are fewer. This is due to a cultural change, in which Statoil does not want to be perceived as playing favourites in a professional and competitive market, or making decisions on the wrong grounds. Subject 9 argues that the frequency of meetings changes at the behest of the market, and other external factors, rather than relational aspects between the parties.

This variance in perception may be due to respondents’ different backgrounds. All are placed in different levels and disciplines of their organization, and all have their own unique career behind them. One might also wonder whether the diminishing of social gatherings influences some to believe that the frequency of professional meetings also has occurred.

One might argue that market forces are the cause of decreased face-to-face contact between buyer and supplier, and the degree to which answers point in the same direction is low, with an average change factor of $-0,556$. The arguments posed do not exclude, nor prove the adversarial attribute developing. However, they do exclude a collaborative development.

Question 5 - Negotiation Mentality

(1) Negotiations are self-centred / Win-win collaboration mentality (10)



The graphs indicate consensus between the parties that the mindset of the organizations has become more self-centred over the last sesquidecade.

Subject 2 believes this is caused by an internal culture-change in Statoil, where a “top-down” and “us-against-them” attitude has begun to replace the collaborative mentality. Replacing debate and problem-solving, the contractor is increasingly met with instructions and orders, and previously there seemed to be a higher degree of mutual respect between the parties. The “project-organization-attitude” is replaced by a “company-organizational-attitude”, which has widened the relational gap between the parties. This stems from Statoil’s size and dominating power on the NCS, rather than being a product of their commercial strategy. (S2)

Respondents from within Statoil refer to the period after NORSOK as a time where there was genuine commitment to introduce a collaborative approach, by use of “integrated teams”. However, as the markets heated up and the oil price was rising, rapid completion of projects was prioritized. (S6, S7)

Statoil found that fewer benefits ensued from this approach than had been expected. Responsibilities were blurred, and it became very difficult to hold anyone accountable for mistakes, extra costs, or deciding whether warranties applied. Statoil incurred the extra costs, and the collaborative approach was retired. (S6, S7)

Some suppliers disagree, claiming that the costs were evenly balanced before. It is argued that many technical changes were never followed up commercially from the suppliers end, and that the oil companies were given a lot of free work for their money (S5). However, Subject 3 believes that in order for the market to be internationally competitive, commercialization is needed.

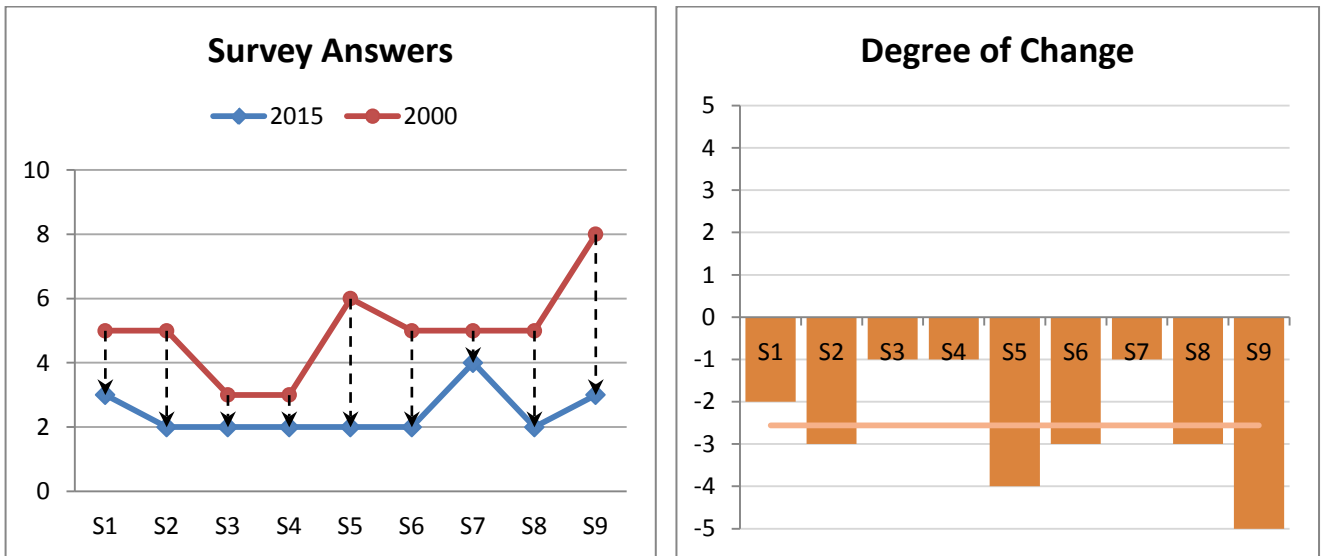
All respondents (apart from S2 and S8) thus believe that a shift towards self-centredness has occurred, and is a result of an increasingly commercially-focused industry, where the parties have found it necessary to look out for one’s own interests.

However, most subjects believe that the preferred route within the companies still is to find win-win solutions whenever possible. Statoil believes that it is important with a strong and solid Norwegian oil- and gas-sector (S9), and Subjects 4 and 8 maintain this will turn around when the oil price rises, and everyone feels a bit more secure.

Notwithstanding that everyone aspires to find win-win-solutions, it is clear that this has proved difficult in practice, due to commercial aspects, which have worked against the implementation of collaboration. The parties have therefore withdrawn from the collaborative approach, and a clear drift is observed towards the adversarial attribute.

Question 6 - Importance of Price in Contract Award

(1) Price is important for award / Price is not important for award (10)



In 2000, it is argued Statoil's engineers dominated the company to a larger degree (S2), and Norwegian contractors had an advantage, where Statoil's engineers felt more comfortable handling a domestic actor than an unfamiliar one. Former evaluations might have favoured technical/commercial aspects with a ratio of 70/30, whereas today 40/60 is more common (S9).

An emerging commercialized mindset is argued to have multiple sources. Subject 7 believe the first major impact was the listing on the stock-exchange. The second was the merger with Hydro, which had a more commercialized company culture, and also adding to Statoil's size and weight. Nevertheless, this is argued to not indicate any conflict between technical and commercial forces within the company. It is maintained that good technical solutions will be viable from a commercial standpoint, and so these two areas complement each other. (S7, S8)

Subjects 1, 2 and 5 disagree with this statement, and points to a perceptible incoordination between the attitudes of Statoil's commercial and technical personnel, where the commercial forces increasingly dominate, and in some degrees hinder technical development, agility and creativity. Meanwhile, it is also argued that an already existing impairing bureaucracy (which was built by engineers in the noughties) is steadily being demounted (S1, S3).

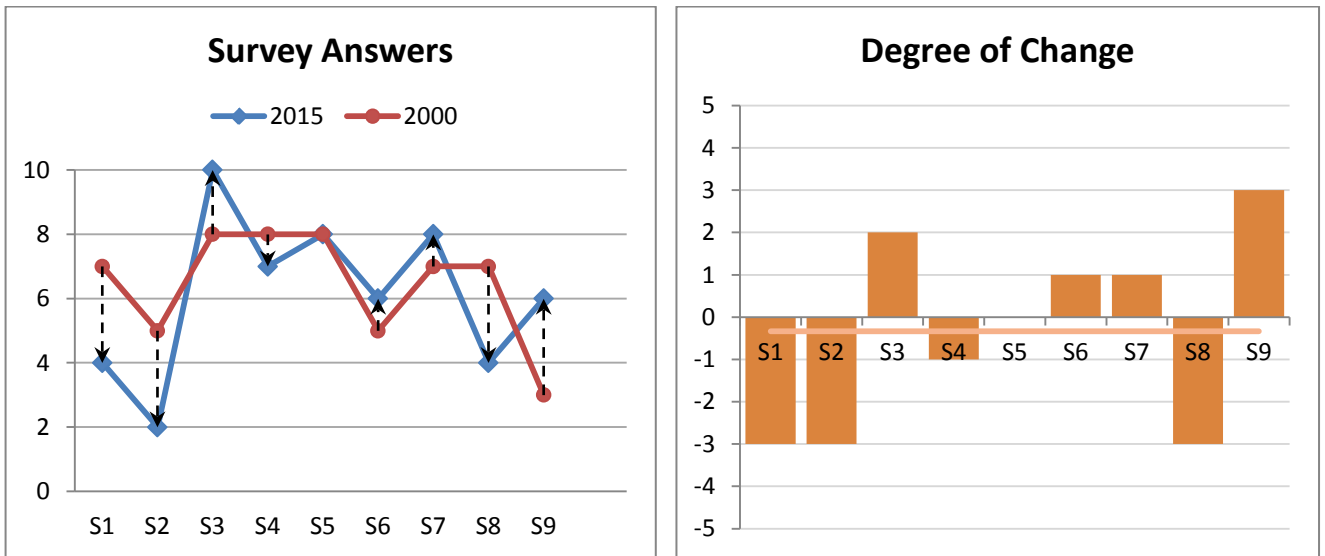
This shift towards a commercial mindset is also traced to the topics discussed in Q2. Suppliers believe that the reason Statoil has awarded work abroad (and particularly to Asia) is because price and cost-aspects have grown in importance. (S2, S4, S5)

All parties agree that price was important in 2000 as well, but has become significantly more so in the last fifteen years. The commercialization of Statoil's company culture has brought attention to keeping costs as low as possible, also when it comes to contract award.

Subject 9 claims this is partly because the company is more knowledgeable than before, and can more extensively model solutions beforehand. Accordingly, emphasis has been shifted from technical aspects (which are increasingly standardized) to commercial ones. Withal, this indicates a clear shift towards the adversarial attribute.

Question 7 - Information Flow

(1) Information is retained / Free flow of information (10)



As particularly the right graph shows, the answers are bifurcated.

Subject 5 believes the interpersonal relations between the parties on the micro level is fairly unchanged, and as a result, information is shared on the same level as before, especially in the technical realm.

Subject 6 points to the fact that both parties wish to incite cost savings, and are sharing information freely to implement common cost saving measures.

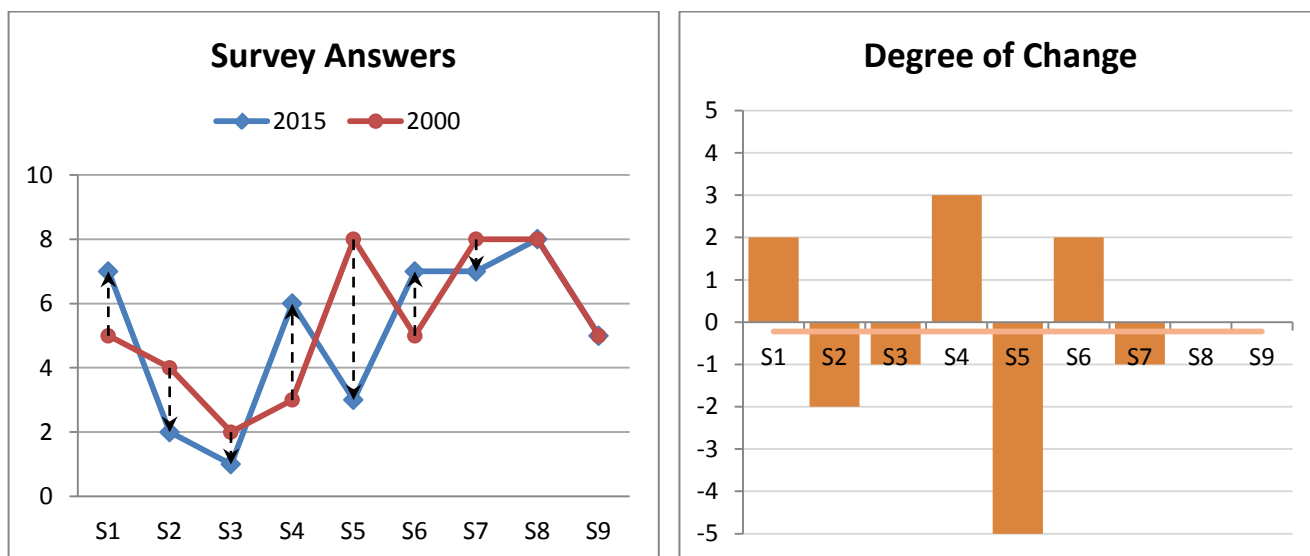
Subject 9 believes that the parties have opened up over the last decade, as Statoil have become more conscious of what information actually needs to be retained. This allows for greater confidence in sharing information that is deemed to be less sensitive, whereas before, it was held back to be on the safe side.

Subject 8, on the other hand, uses the same basis for argument, but believes that the attitude towards sharing information has diminished somewhat. The Norwegian market was formerly characterized by a build-up mentality, in which free flow of information was the ideal way of elevating the market as a whole. Today, it is each to his own, and the parties have become more aware of intellectual property rights, patents and company secrets. Subject 2 experiences the same trend.

As the graph above ("Survey Answers") illustrates, no conclusion can be formed of whether information is retained to a greater or lesser extent than before. This study remains inconclusive on this point.

Question 8 - Cost Savings Beneficiaries

(1) Cost savings benefit one party / Cost savings benefit both parties (10)



The answers to this survey-question are highly divergent, and the above graphs do not point to any conclusive answer.

On the one side, it is argued that with the commercial focus, both parties seem to have developed a more open attitude towards finding common cost saving measures, to the benefit of both parties (S1, S4, S9).

On the other, it is argued that Statoil is believed to have been less cost-oriented and more plan-focused before, which has benefited both parties, throughout the 2000s. This has worked well as long as both parties made money, but with the recent hardening of the market, and the drop in oil price, this has turned around. (S7) This change implies pressuring its suppliers to lower costs, and each party trying to ensure that cost savings benefit themselves (S5, S7, S2).

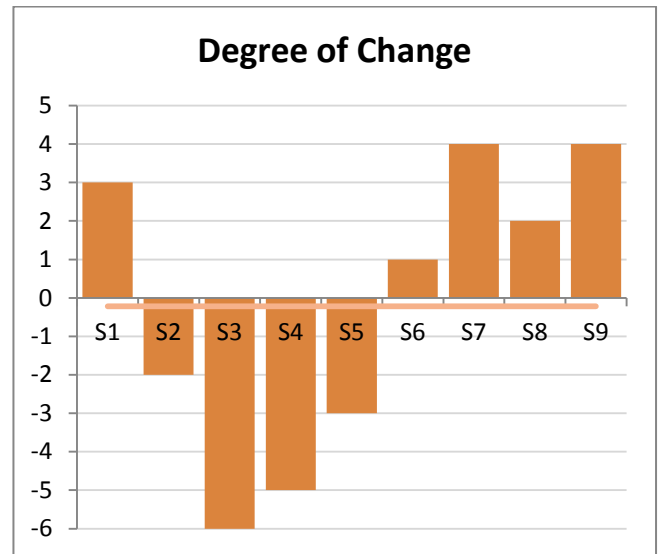
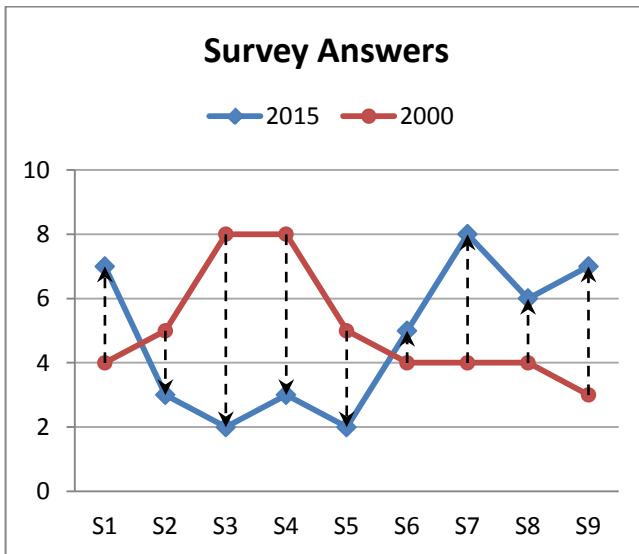
The main difference between the situation before 2002 (when also the markets were slow) and today, is that this time, it seems the Norwegian suppliers are less involved in Statoil's processes, which may indicate that cost saving efforts are more concerned with own gain (S7). This change has spurred more frequent disputes of whether modifications should be implemented without added cost, or as part of the initial scope (S5).

The intensity of the cost-focus correlates to market situation, rather than relational changes, Subject 8 believes. With such diverging perspectives from the respondents, this study remains inconclusive on this point.

However, one could argue that whether or not one or more parties benefit from cost-savings, there is an increased frequency of confrontation between the parties, where economic disputes are concerned. Arguing about money seems to displease suppliers more than it does Statoil. Again, different perspectives can be observed from the parties – Statoil commercializes its processes, and suppliers' technical personnel are feeling controlled.

Question 9 - Risk Allocation

(1) Risks are carried by one party / Risks are carried by both parties (10)



Most of our subjects believe that Statoil is shifting its risk onto its suppliers. However, there are some varying arguments as to the implications, and reasoning behind this.

Subject 1 argues that previously, most of the risk was in practice carried by Statoil, even though the EPC-contractor was the responsible part on paper. Statoil would more easily absorb extra costs, and take responsibility for time transgressions. It is observed that contractual specifications are being tightened, and followed up more rigorously; in essence, transferring the risk onto the suppliers in reality, as well as on paper. (S1) Statoil's representatives' statements support this.

Normally, the risk-taking part is compensated by the possibilities of a corresponding risk premium. All suppliers argue that the current transfer is rather done by intensification of markets, in which Statoil has used foreign suppliers to force Norwegian actors to accept more risk, without additional compensation.

Subject 6 and 7 somewhat concur, but believes that Statoil still holds the ultimate completion-risk of the project, where coordination of suppliers, ultimate quality and start-up of production is involved. One aspect here is that due to bigger projects, the total amount of risk also increases, and thus both parties are carrying more risk today.

Subject 6 and 8 believe that the party most capable of handling a risk should take it, and as a result, Statoil is shifting some of the risk over to the contractor. Subject 9 claims this is done to use the risk as an incentive for efficiency, to reverse the extant trend of rising costs.

Subject 6 argues that as developments on the NCS slow down, Statoil seems to increase the usage of EPCM-formats, in which the risk is shifted towards the principal. This somewhat counters the argument of risk being transferred onto the supplier on a general basis, but that it correlates to the intensity of the market.

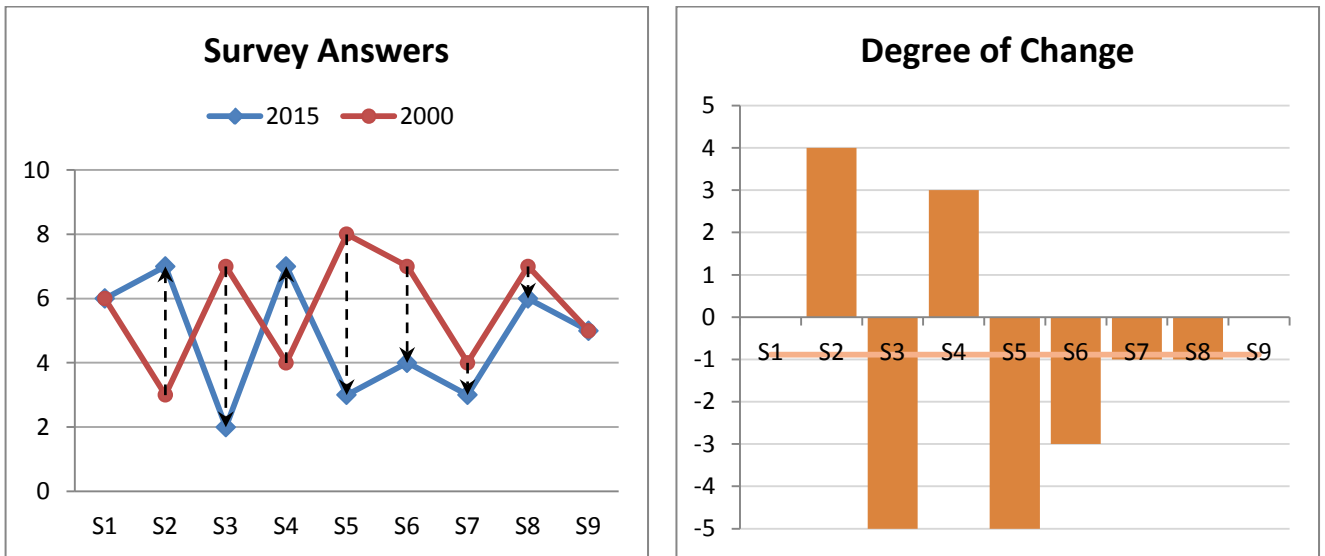
There are many aspects to the debate of whether this revised risk distribution will strengthen the Norwegian petroleum sector, or damage it. An important one is “who is capable of handling the risk?”, both financially and technically.

On the one hand, if suppliers (who generally have less economic leeway than oil companies) absorb more risk, one might argue this diminishes their possibilities of growth, as more capital is bound to safeguard bankruptcy, in the event of an incident. On the other hand, agents are closer to the product, and in some cases hold more information than the principal, and are thus better suited to prevent incidents in the first place. Transferring the risk onto them can reduce the morale hazard.

The respondents disagree as to whether the transferring of risk onto contractors signals a shift towards “one party” or “both parties”. Suppliers (S2-S5) argue they already hold much of the risk, and that the distribution is balanced. The others claim that Statoil currently holds, and has always held, most of the risk. Whether or not this be the case, one can conclude that accountabilities and boundaries between the companies are more clearly defined than before. This is, regardless of whether the risk is being justly transferred or not, a clear indication of a widening of the relational space between the parties, corresponding to adversarial development.

Question 10 - Substitution

(1) Alternating between suppliers is easy / Alternating between suppliers is difficult (10)



When considering the EPC-market, it is difficult to observe any change towards perfect competition over the last 15 years, as the products dealt with are far from homogeneous. The arguments therefore posed for whether or not alternating between suppliers is easy/difficult will stem from other sources, such as cultural similarity between contractors, locations, and standardization practice.

Subject 2 believe that longer contract durations will limit Statoil's ability to swap expeditiously between suppliers. This in turn may impact the number of suppliers, by bankrupting some, and thus limiting the number of available agents in the future.

Subject 3 believe that standardization and the higher number of competitors allows Statoil greater flexibility when choosing their preferred supplier. Subject 5 raises the topic of divergence in the market, with the entry of Asian suppliers. This means Statoil has to take heed of cultural and geographical challenges in a greater sense, making it more difficult to standardize one's approach towards, and alternating between, suppliers.

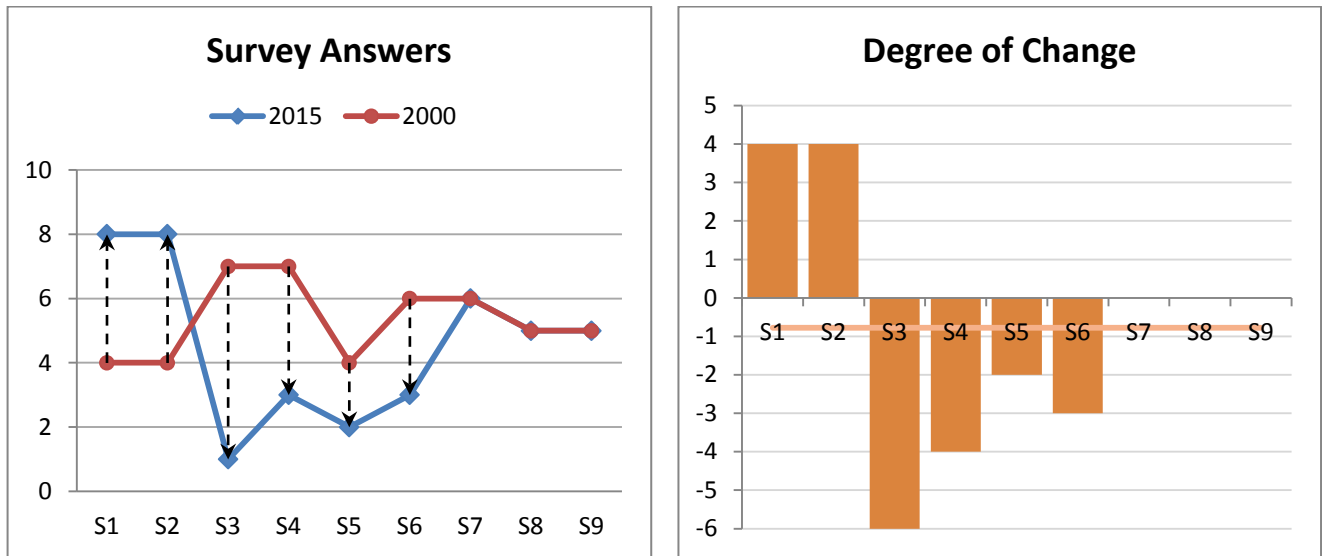
Subjects 6, 7, 8 and 9 argue that Statoil has learnt a lot about how to deal with foreign suppliers, and has thus gained access to a larger market, allowing greater choice in supplier-base. Subject 9 further raises the topic of laxer regulation, which has in some instances allowed for greater flexibility in selecting providers.

Retrieved data suggest that globalization has allowed Statoil a much wider range of suppliers to choose from, than the company experienced in 2000. Further, Statoil is to a lesser degree bound by its patriotic dispositions, where before, Norwegian actors might have been granted contracts more easily (S7, S8)

The trend points towards a slight change towards adversarialism. However, the causes are aspects of market and internal cultural change, rather than a relational change between the parties. However, it will be interesting to note whether this trend will reverse when markets now are turning around. With a climbing oil price, assuming relations are unchanged, Statoil would again focus their attention on select suppliers. Whether or not the Norwegian suppliers will be those "selected" may suggest if a relational change has indeed occurred.

Question 11 - Formality of Controls

(1) Controls are done formally / Supplier is self-controlled (10)



Interesting to note, most supplier representatives have quite strong opinions on this matter, whereas 3/4 representatives from Statoil observe no change in this practice. However, the former are quite in disagreement about whether controls are more or less formal today. This could be due to their diverging positions, in different companies.

Subject 1 and 2 believe that Statoil is interfering in projects to a lesser degree, due to the commercial focus within the company - interfering is expensive.

This is corroborated by Subject 6 and 8, who claims that Statoil engages with contractors based on evaluations of previous experiences. This means that Norwegian suppliers, with whom Statoil has longer experience, will require less follow-up and formal control than untested ones. This implicates that throughout the 2000s, suppliers should, in theory, become more and more self-controlled, and hence we have seen an upsurge in the usage of the EPC-format.

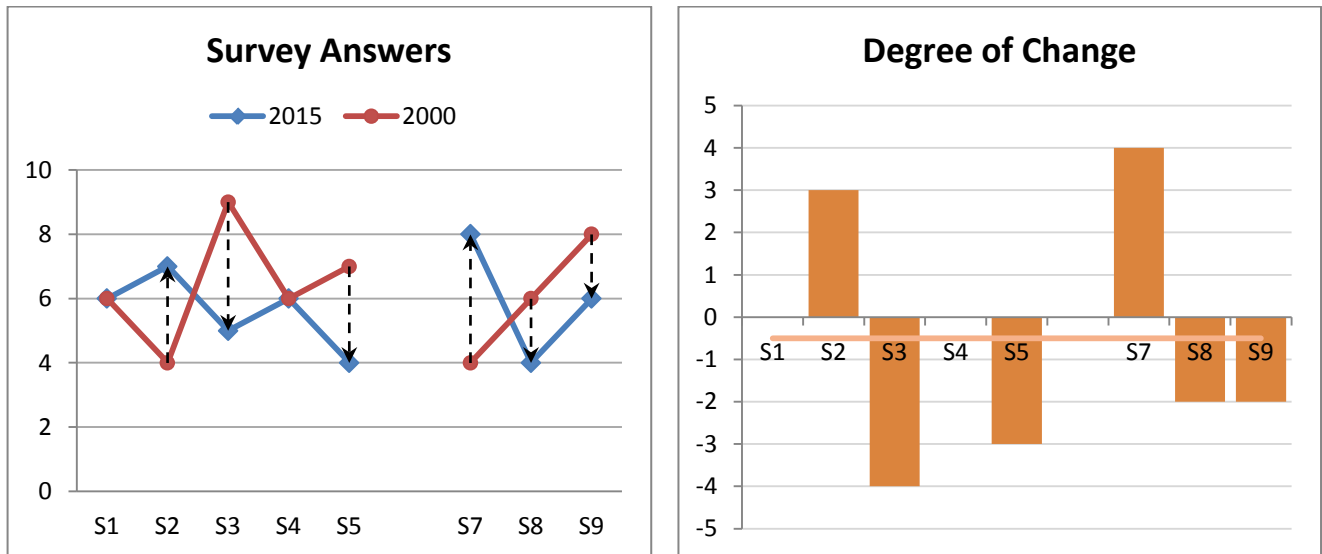
Subject 3 believes interactions have become more formal and bureaucratic. Subject 4 believes Statoil, having attracted theoreticians to a greater extent than before, has lost some of their practical competence, and as a result, more people are needed on site to follow up the project. At the same time, streamlining of processes and partitioning of authority has turned controls in a more formal and systematic direction. (S3, S4)

Subject 9 argues that, comparing 2015 and 2000, the situation is unchanged. However, in between this period, formality of controls has fluctuated in cycles. It is argued this changes at the behest of the concurrent market situation, rather than relational aspects between the parties. Statements from S6 corroborate this.

A noticeable change, which few respondents contest, is the emergent usage of quantitative measures, such as KPIs to assess one's suppliers. (S3, S9) Particularly Subject 3's elaborate testimonial on the usage of formal control-measures signals a significant shift towards adversarialism. However, as observations from the respondents are quite divergent, Question 11 remains inconclusive.

Question 12 - Contract Form

(1) Dominant contract form: Lump sum / Cost reimbursable (10)



Subjects 6 and 8 argue that these contract formats are used for completely different market segments. Statoil has a clearer view of when to use each contract type than before. Whether or not one or the other is employed is based on the attributes of the individual project. S6 argued they are incompatible contrasts, and refrained from answering this survey-question. Subject 1 corroborates this, but claims that their usage either way has not particularly changed in the last fifteen years.

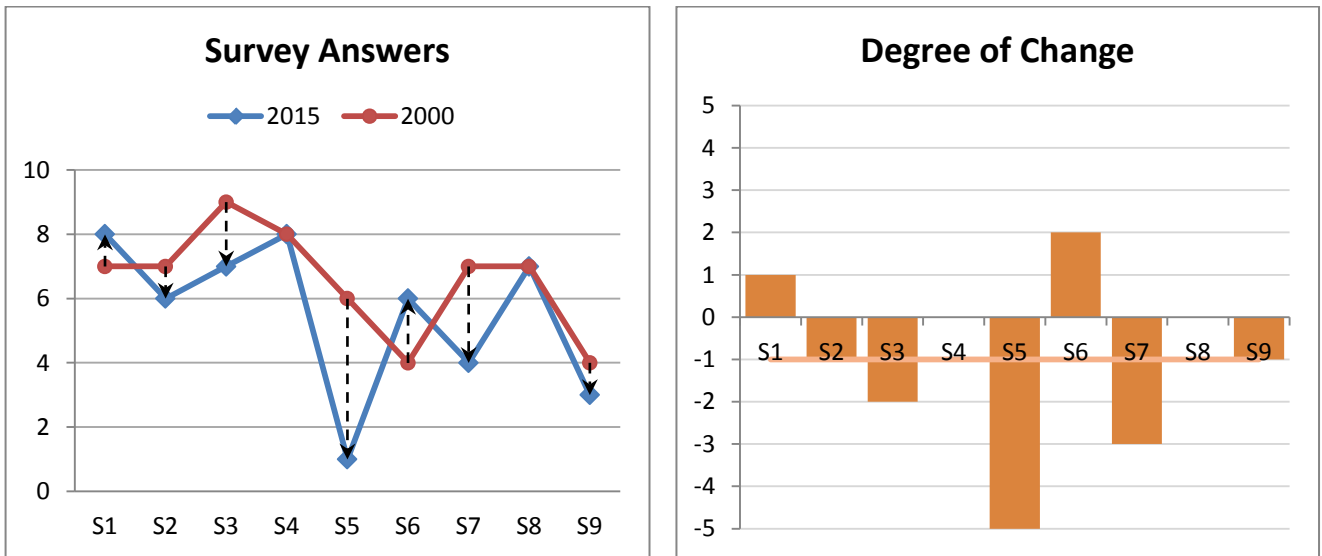
Subjects 2 and 7 believe that the lump sum format was more widely used before than today, and that the usage of cost-reimbursable mechanisms has increased throughout the 2000s, as this generated better response amongst suppliers. They claim that the proportion of cost-reimbursable contracts correlates with the activity levels of the market.

Recently, however, Statoil has introduced new programs, intended to standardize and streamline (S1, S2). This facilitates usage of the lump sum format; and also serves to shift the risk onto suppliers, as Statoil has suspected low productivity levels in some market segments. (S8) However, it is maintained that the company is far from implementing a pure lump sum strategy. (S8, S9)

With this in mind, it is reasonable to conclude that Statoil turned towards the cost-reimbursable format to answer market changes in the first decade of the millennium, and is now reversing this trend. Hence, whether or not the definitive change from 2000-2015 has been towards adversarialism or collaboration remains contested.

Question 13 - Goodwill

(1) Goodwill is not important / Goodwill is important (10)



Most respondents agree that goodwill became less important in the period of 2000-2010. However, Subjects 1 and 6 believe that this trend is turning. Corroborated by the lengthening of contract durations and revitalized efforts to build long-lasting relations, as discussed in Q1, they are confident that goodwill is becoming more important for the interaction.

Subject 8 believe that goodwill is important, to function as a “safety net” when things go wrong. It is argued this has not changed significantly.

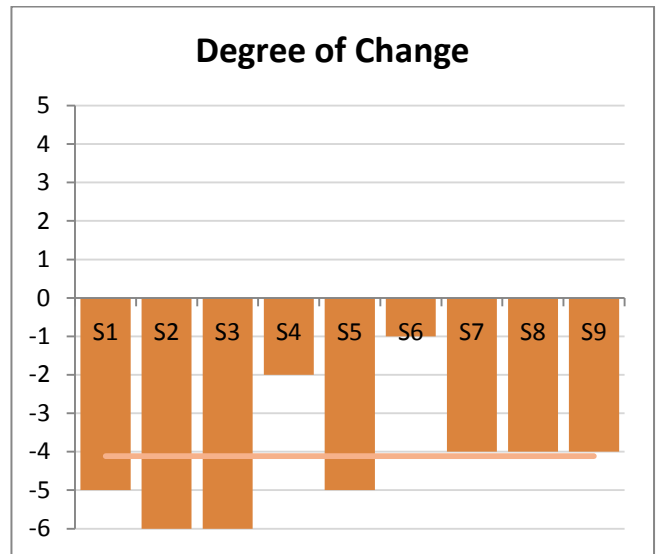
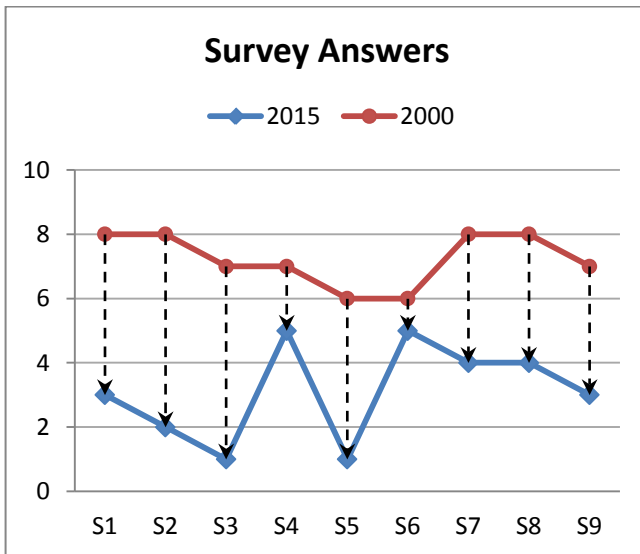
Others believe that the commercial mentality’s surge in Statoil, albeit having yielded short-term results, has weakened the synergy between customer and supplier. (S2) Meanwhile, it is believed the power was formerly more concentrated around the engineers that followed up contractors. Today, when commercial aspects increasingly influence project decisions, goodwill loses its clout. (S2, S3, S5, S9)

Others maintain that as Statoil has gained more information, and knowing its suppliers better, the practical need for goodwill as a control mechanism is fading. However, it is still important to maintain a professionally sound relationship with the contractor. (S7)

This is interesting to compare to Sako’s study (cf. Chapter 2.1.2), where trust was divided into three parts. The characterizations above allude to the fact that “goodwill trust” has faded; yet “professionally sound relationships” are maintained. This indicates a shift towards the adversarial attribute in the last sesquidecade, but as S1 and S6 argue, this might just be turning around.

Question 14 - Contracts vs. Relations

(1) Contract is important / Relations are important (10)



Throughout the '80s and '90s, there were clear tendencies of nurturing relationships with one's trusted suppliers, and pursue the idea of "integrated teams". Close relations were cultivated, and the parties wished to replace detail-specks with function-specks to get rid of unnecessary paperwork. It is argued that much of this mentality has lingered to the year 2000, and therewith, one of the strategies to combat rising costs was the reliance on principal-agent-collaboration to come up with technical solutions that would enhance efficiency. (S1, S3, S6 S7, S8)

Agreements were made verbally to a larger degree, and Subject 8 believes this former relational focus came as a bi-product of Statoil's history as a means of developing the NCS, in which its employees felt an obligation to "take care of" its Norwegian suppliers.

Some argue there has since been a perceived shift of authority within Statoil. Previously, technical personnel might verbally order changes and adjustments from the supplier on site. The supplier, in turn, would know that compensation would be duly granted. It is argued that commercial forces have taken over this authority, as Statoil increasingly found that less value was produced for its money. Hence, as Statoil transformed into a more commercialized actor (ref Chapters 2.3 & 2.4.1), the relational orientation has gradually dispersed. (S2, S3, S4, S7, S8)

Others argue that Statoil has been influenced by the entry of foreign suppliers. Particularly Asian companies do not have the same relational focus as the Norwegians had in 2000, and Statoil has had to adapt to an international market. This has in turn changed its practices towards Norwegian companies. (S4, S5, S8).

Statoil is characterized as a more commercial organization, exemplified by its growing reluctance to accept variations. The agreements themselves have not changed, but they are interpreted more strictly, to the benefit of the oil company. (S4, S5, S7)

Today, it is more difficult to cultivate relationships than before. Stricter regulations and rules, both internationally and internally, govern the companies' employees' ability to interact on a personal level. Also, gift-exchanging and socializing is no longer part of the culture in the same manner as before. This trend is introduced to uphold the parties' (and their award-processes') image of professionalism and fairness. (S4, S8)

This leaves the parties able to meet in job-settings only. It is argued that in some instances, forming an off-work relationship with one's industrial partners was a good way to earn trust and goodwill. This meant one could rely on the relation in professional dealings too. (S4) Hence, these relations were previously much more important (S7, S8).

Subjects 6 and 9 argue that the importance of relations has had to give way for the new contract-oriented mentality. Statoil's sought-after "tidiness" necessitates governance on paper, in place of relational mechanisms. Subject 8 describes this trend as part of a "professionalization" in Statoil.

Statoil's employees seem to think of this change as a step in a positive direction. They believe this enhances Statoil's ability to influence its suppliers, as well as discouraging disorderly conduct.

The suppliers, on the other hand, feel that the synergy between agent and principal is disappearing, and that disputes are increasing in frequency. As Statoil's technical personnel more and more often refrain from making committal statements, this leaves the project organization somewhat incapacitated. Quick solutions are harder to find and implement, and the distance between requester and relevant contractor personnel has widened a lot. (S2, S3)

Countering this, some argue that Statoil still treats Norwegian and Asian actors differently, where the relational focus still is of some importance when a domestic supplier is dealt with. (S5, S6, S7)

Looking forward, Subjects 1 and 4 believe the "contract-focused trend" will turn around. It is argued that one cannot treat Norwegian contractors in the same manner as Asian ones, and that Statoil will "warm up" when the markets stabilize.

Subject 8 and 9 believe that Statoil will uphold and further its professionalizing strategy, and that relationships will be more clinical and oriented around the written word.

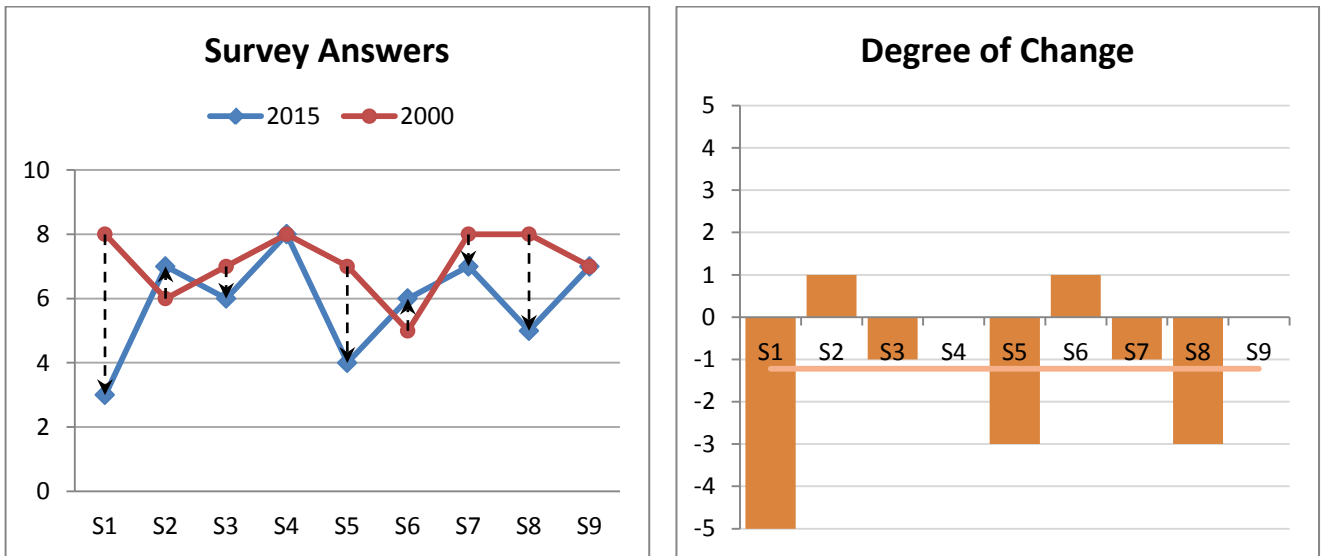
One could argue that Q14 captures the very core of perceived development, in which all these various aspects are argued to be the cause. This is deemed to be a very central question to determine relational change.

As clearly illustrated by the graphs above, all parties agree that contractual importance has, more or less, replaced the collaborative strategy. This question is the one indicating the highest change towards adversarialism, with an average change factor of $-4,111$.

"The significance of relations seems to have disappeared – the contract means everything"
- Subject 5

Question 15 - Suppliers' Trust in Statoil

(1) Suppliers do not trust Statoil / Suppliers trust Statoil (10)



Subject 1 believes this question correlates with Q14, and the same arguments are used. With relations weakened between the parties, trust naturally diminishes.

However, all suppliers indicate they still maintain their “Competence trust” and “Contractual trust” (cf. Chapter 2.1.2) in Statoil, and believe that the company conducts itself in a professional manner. Subjects 2, 4 and 6 believes that the professionalization of Statoil does not damage the trust between the parties, as the long working relationships that have been nurtured on the NCS has led to the strengthened belief that Statoil meets one’s expectations.

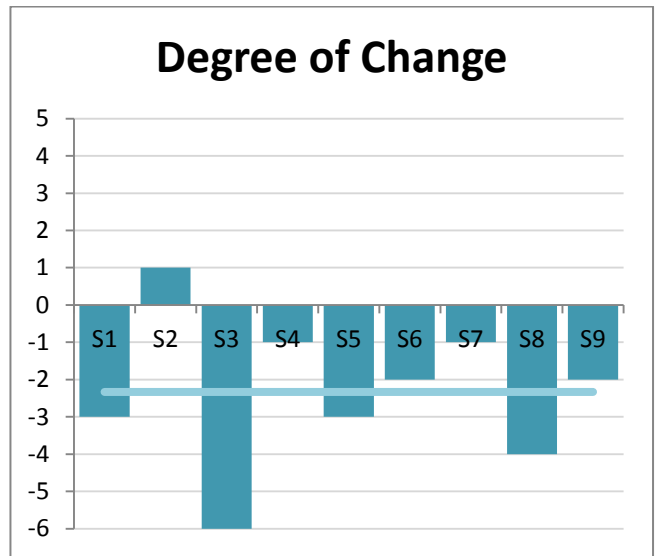
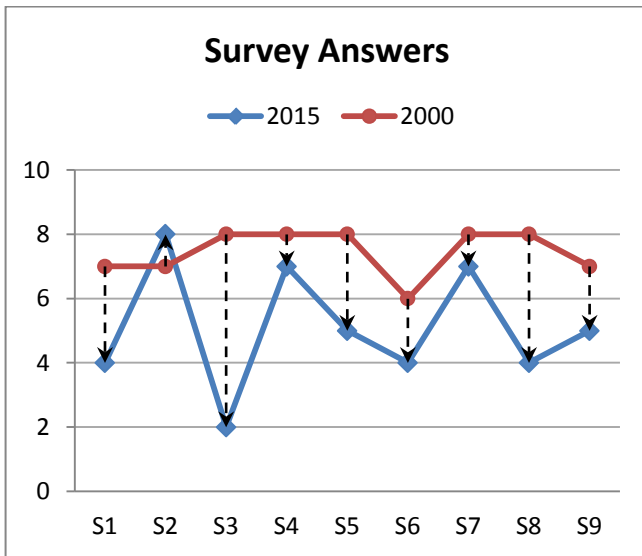
However, Subjects 1, 3, 5, 7 and 8 indicate that the importance of “Goodwill trust” has waned up until today. Heretofore, one could act upon verbal instructions; now, one must memorize the contract by heart, and act accordingly. (S5) This is again encapsulated by the term “commercialization”.

Subject 9 believes that although Statoil is probably regarded as more “commercial and self-centred”, suppliers’ trust in the company seems to be maintained. The suppliers know what they face, as Statoil has been open with their intentions.

Neither of the arguments above opposes the claim that “Goodwill trust” has diminished. This signifies, therefore, a change towards the adversarial attribute.

Question 16 - Statoil's Trust in Suppliers

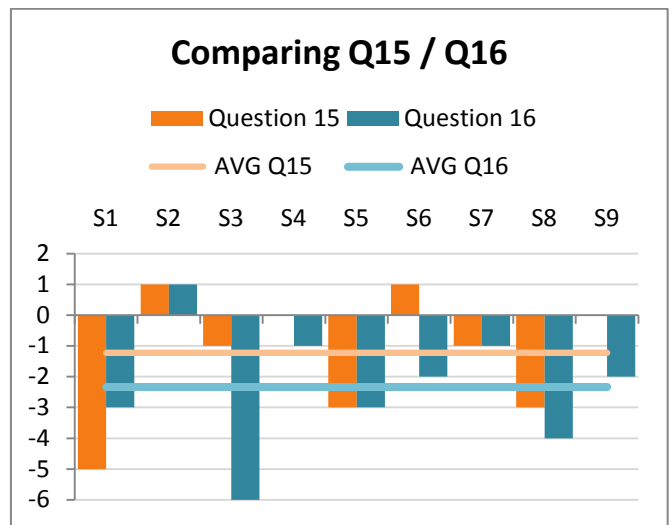
(1) Statoil does not trust suppliers / Statoil trusts suppliers (10)



Comparing the graphs of Question 15 and Question 16, we find that particularly Statoil's employees believe that suppliers' trust in Statoil remains stronger than Statoil's trust in suppliers, with average factors of $AVG_{Q15} = -1,22$ and $AVG_{Q16} = -2,33$.

Subject 9 argues that this is connected to the increased usage of quantitative measuring-methods by Statoil. The company has attained a clearer view of what is done wrong. It is claimed that previously, Statoil *needed* to trust its suppliers, whereas today, one can rely on the basis of figures to govern projects.

There is also a notion that suppliers have grown too comfortable, due to lax follow-up by Statoil. Rising costs and decreased value for money throughout the 2000s has brought forth a view in Statoil that suppliers now need to prove themselves to secure the oil companies' trust. (S6, S8)



Supplier representatives agree that Statoil's formalization practices signalize diminished trust in their agents. (S1, S3, S4)

This corroborates Q15, in that the "trust-dimension" is developing towards adversarial characterizations.

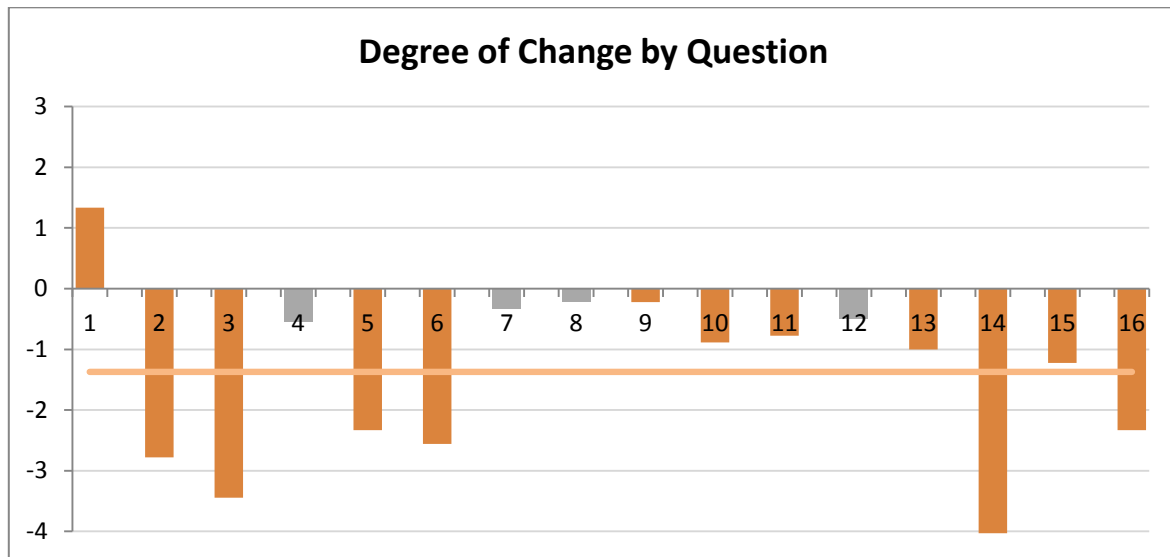
CHAPTER 5 – Conclusions

5.1 Study Question 1

In Chapter 3.1 two study questions were formulated. The first one read as follows:

“How have relations changed between the oil companies (represented by Statoil), and their suppliers (represented by the large EPC-companies), in the time-span of 2000-2015?”

This study reveals that the Norwegian petroleum market has undergone a clear shift, in which adversarial relational attributes play a more dominant role. 10 out of 16 Questions indicate a clear trend in this direction, while 1 out of 16 would suggest a recently emerging trend of collaboration. The remaining probing points (marked in grey below) did not yield conclusive results, due to diverging answers by the respondents.



Especially “Q3: Formality of Communication” and “Q14: Contracts vs. Relations” highlighted important aspects of interpersonal development, in which all parties believed the interactions between Statoil and its suppliers had become more “clinical, commercially focused, and dependent on contracts, rather than relations”.

These claims are further backed up by revelations under “Q5: Negotiation Mentality”, “Q13: Goodwill” and Q15 and Q16 which discusses the trust between the parties. It is clear that literature has drawn accurate correlations between these attributes, in forming the characterizations of “adversarialism” and “collaboration”, as most Questions point toward the same trend.

5.2 Study Question 2

Conclusions to the second study question are discussed in the following:

“What are the reasons behind, and implications of these changes?”

It is argued that the development of the adversarial attributes' dominance comes as a result of cultural changes within Statoil. Most respondents concur that Statoil has become a more commercially focused (and competent) organization. Before, technical and practical aspects seem to have been the motivating force, driving the company forward. Today, commercial forces dictate directions to a larger degree.

This cultural change, supported by structural changes, is the consequence of various causes, but especially changes in the market, as revealed by Questions 2, 6, 9 and 10. It is apparent that the Norwegian petroleum sector has profited greatly from the rising oil-price in the 2000s. During this period, Statoil has increasingly become mindful of suppliers' opportunistic behaviour, be it intentional or as a result of lacking incentive for efficiency.

As trust in its suppliers has diminished, Statoil has seen the need to redirect its attention on own interests, in place of mutual beneficial endeavours, to ensure the balancing of scales.

Simultaneously, we have seen the Norwegian petroleum sector increasingly internationalized. This comes partly as a result of Statoil's commercialized culture, in which Asian actors have been deemed more economically favourable than their Norwegian competitors, and partly due to lack of capacity internally in the domestic market.

One can further trace Statoil's cultural change to its inherent ambitions of international ascendancy. The current market situation shows that the commercial focus on the NCS impacts the society greatly, and one may wonder whether it is wise that such a commercially ambitious company exercises such influence on the country.

This entails the question: Should the destiny of the NCS be determined by private and commercial forces to such a large degree, or should the Norwegian State be more active in influencing its development?

It is interesting to note the emergence of adversarial attributes this commercialized mentality entails. This study thus encapsulates the “experiment of collaboration” on the NCS, which NORSOK encouraged in 1993. Notwithstanding the beneficial characterizations on paper, it seems to have failed in the real world, now being replaced by the traditional contract-oriented approach.

That is not to say that a collaborative mentality should be abolished altogether. Following Uzzi's (1997) advice, a mix of the two should still be employed to maximize relational benefits. One could argue that all parties on the NCS are in fact commercially-oriented, and this mentality causes the cultivation of collaborative attributes great difficulty. One needs adversarial incentives to ensure efficiency, which is a prerequisite for Statoil's ambitions.

Arguably, the dominance of adversarial attributes could signalize that Statoil is increasingly prioritizing short-term profit. The collaborative approach entails long-term benefits, such as closer synergy between principal and agent, enhanced expertise in the market, as suppliers and oil companies share information and knowledge to a greater extent, and a more flexible

and agile industry. Moreover, the collaborative approach brings benefits in developing new technology, as one can tap into knowledge held by both customer and contractor. These are factors that enhance long-term gain.

This is not necessarily a negative change. By toughening up the Norwegian supply-market, ensuring their cost effectiveness and international competitiveness, it is argued that the industry will remain long after the NCS is depleted of resources. Had the Norwegian market isolated itself, as it was to a much greater extent pre-2000, the industry would have waned as soon as Statoil ceased their operations in Norwegian waters.

However, Question 1 revealed that emerging collaborative tendencies were again observed, and some of our respondents believe Statoil's relations-strategies fluctuate with the market. It will be interesting to observe Statoil's upcoming award processes, as they may reveal many secrets of Statoil's intentions for the future of the Norwegian Continental Shelf. Looking at the recent awarding of Johan Sverdrup contracts, we already find tendencies of turning back, as Norwegian contractors Aker, Apply, Aibel and Kværner all have secured contracts vital for their future existence (Nissen-Meyer, 2015).

Although one should be cautious in broadly generalizing conclusions from an interviewed-based case study, it is argued that all markets are oriented around relations. The connection presented between theory and real-life rejection of the collaborative approach is therefore valid. It is the author's hope that this study may prove useful to, not only actors on the NCS wanting to broaden their understanding of previous, and current, interorganizational processes, but also to those who seeks to understand real-life obstacles to the collaborative strategy.

It is further highlighted that the Norwegian market is no longer as insulated from the world as it used to be. Businesses wishing to succeed must heed this trend, and those wishing to expand internationally even more so. This previous chapters offer some valuable insight into the challenges these ventures present.

In the current difficult market, it is the author's hope that this thesis will enhance both Statoil's and its suppliers' understanding of the other party's situation. For some, the literary analysis may be valuable to reason why certain choices have been made on the NCS in the last year, but also to highlight the fortuity Norwegian actors have been graced with throughout the last sesquidecade.

5.3 Further Research

This thesis reveals the relational development between the parties on the NCS. What remains to be certain is whether the shift towards adversarial governing mechanisms signifies a positive “adjustment”, which will ensure Norwegian competitiveness for years to come, or whether it signals the start of the deterioration of the Norwegian supplier market. Here, one could start off by comparing the current trend to that of former UK suppliers, where the market is merely a remnant of the ‘80s.

Another interesting aspect, which should be further investigated, is the cultural shift in Statoil. This thesis indicates that technical forces are increasingly replaced by commercial ones. Quantifying, and elaborating on this in more detail would be an interesting topic to highlight the dominant force defining the destiny of the NCS.

This thesis reveals that Statoil has shifted risk towards its suppliers. This would in theory entail a higher risk premium, but this has seemingly been competed away by market forces, and the intensification of the supplier market. This would indicate a shift of power from supplier to buyer, and could prove economically beneficial for Statoil, at least in the short term. Further study could clarify whether this transfer is warranted, following the statement that “the party most capable of handling the risk should govern it”, and to what degree this might impact suppliers' abilities to survive.

However, long-term, the consequences of this change should especially be elaborated on. Could this risk transfer harm the suppliers in the long run, and will this damage the Norwegian petroleum market, as important cultivating-fields for expertise go bankrupt?

Whether or not the shift towards adversarialism has encouraged greater transparency could be of great importance to combat disorderly conduct. On the one hand, it is clear that relational closeness between individuals facilitates unwanted practices. On the other, one might argue that Statoil has become a more “closed” organization. These facets should be discussed further.

Also, political forces are amassing to encourage “the green shift”, ensuring that new technology markets and inventions are developed before it is too late. It could be interesting to see whether this has yielded results in practice, whether this economic slump has in fact encouraged a boost for green development, both in public opinion, as well as investment terms.

One thing is for certain:

Winter is coming for the oil era, and we must prepare for the future.

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Appendices

Appendix A – Data Collection

Interviewees

Pseudonym	Employer	Exp.	Education/Field	Page
Subject 1	Service/supply Co	35	Technical/Commercial	66
Subject 2	Service/supply Co	25	Technical	70
Subject 3	Service/supply Co	18	Technical/Commercial	74
Subject 4	Service/supply Co	30	Commercial	78
Subject 5	Service/supply Co	16	Technical	81
Subject 6	Statoil	24	Technical/Commercial	84
Subject 7	Statoil	24	Commercial	87
Subject 8	Statoil	9	Commercial	91
Subject 9	Statoil	15	Commercial	95

Remarks

Service/supply Co: The service/supply companies participating in these interviews are, in arbitrary order: Aibel, Aker Solutions and Apply

Exp.: Defined by years worked in or with Statoil as employer or client on a regular basis.

Page: Page number on which the uncondensed transcript of the interview is presented.

All interviews are conducted by the writer (A. H. Slaattelid) in the months of April and May, in the year of 2015.

Interview Guide

What is your background? *(Include Education/Field of work and Relevant experience – defined here as years worked with/in Statoil on a regular basis)*

How would you describe the changes in relations between Statoil and supply-companies from 2000-2015? *(Allow open answers. Ask relevant follow-up questions where necessary, and steer the conversation through the survey below, allowing for open dialogue around these topics) (If stuck, ask to outline a picture of the situation in 2000, and then talk through chronological changes up until today.)*

What do you believe to be the underlying reasons for these changes?

What do you believe will be the implications of these changes?

Survey:

Mark two boxes; one for how you perceive the situation was in 2000 (A), and one for 2015 (B): *(Decision basis and reasoning should be recorded for each point, if not discussed formerly. In the event of “don’t know” or “not applicable” fields are left blank.) (Numbers closer to the left indicate adversarial traits are perceived to a higher degree; Numbers closer to the right indicate collaborative traits are perceived to a higher degree.)*

Q1	Contract durations are short														Contract durations are long
Q2	Many invited to compete														Few invited to compete
Q3	Formal communication														Informal communication
Q4	Few face-to-face meetings														Many face-to-face meetings
Q5	Self-centred negotiations														Win-win collaboration
Q6	Price important for award														Price not important for award
Q7	Information is retained														Free flow of information
Q8	Cost savings benefit one party														Cost saving benefits both parties
Q9	Risk is carried by one party														Risks are shared by both parties
Q10	Change of supplier is easy														Change of supplier is difficult
Q11	Controls are done formally														Supplier is self-controlled
Q12	Contract form: Lump sum														Contract form: cost-reimbursable
Q13	Goodwill is not important														Goodwill is important
Q14	Contract is important														Relation is important
Q15	Suppliers do not trust Statoil														Suppliers trust Statoil
Q16	Statoil does not trust suppliers														Statoil trusts suppliers

Appendix B – Data Representation

The survey is quantified by numbers, where 1 represents the highest dominance of the adversarial attribute, and 10 represents the highest dominance of the collaborative attribute.

Illustrative Example

Subject 1:

Adversarial attribute	1	2	3	4	5	6	7	8	9	10	Collaborative attribute
Formal communication			A				B				Informal communication

The letter **A** indicates that the subject believed that communication was relatively **formal** between the parties in **2000**. The letter **B** indicates that the subject perceived communication to be relatively **informal** in **2015**. A letter **C** would indicate no change, i.e. both letters **A** and **B** were placed in the same bracket by the subject. Our example above, for Subject 1, shows a change towards the collaborative, with a factor of

$$\text{Factor of Change} = \text{Value}_{2015}(\mathbf{B}) - \text{Value}_{2000}(\mathbf{A})$$

$$\text{Factor of Change} = 7 - 3 = 4$$

Subject 2:

Adversarial trait	1	2	3	4	5	6	7	8	9	10	Collaborative trait
Formal communication				B					A		Informal communication

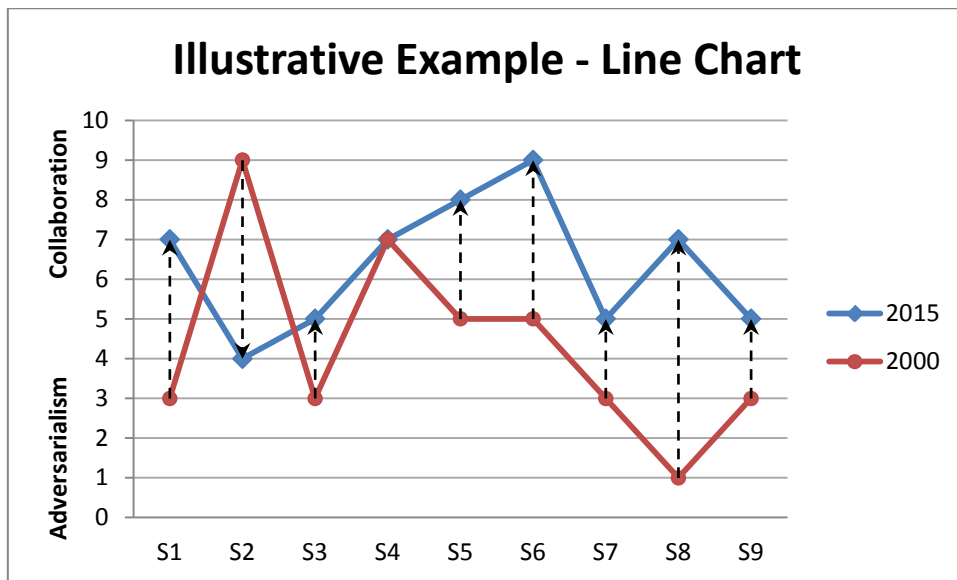
Here, the subject believes that **informal** communication dominated in **2000**, and that **formal** communication is somewhat dominant in **2015**. This would indicate a change towards the adversarial, which is represented by a factor of

$$\text{Factor of Change} = (B) - (A)$$

$$\text{Factor of Change} = 4 - 9 = -5$$

As shown, positive factors indicate change towards collaboration, and negative factors indicate change towards adversarialism.

The survey's quantitative results for each survey question are graphically represented by the use of two types of diagrams: Line Charts and the Bar Charts.

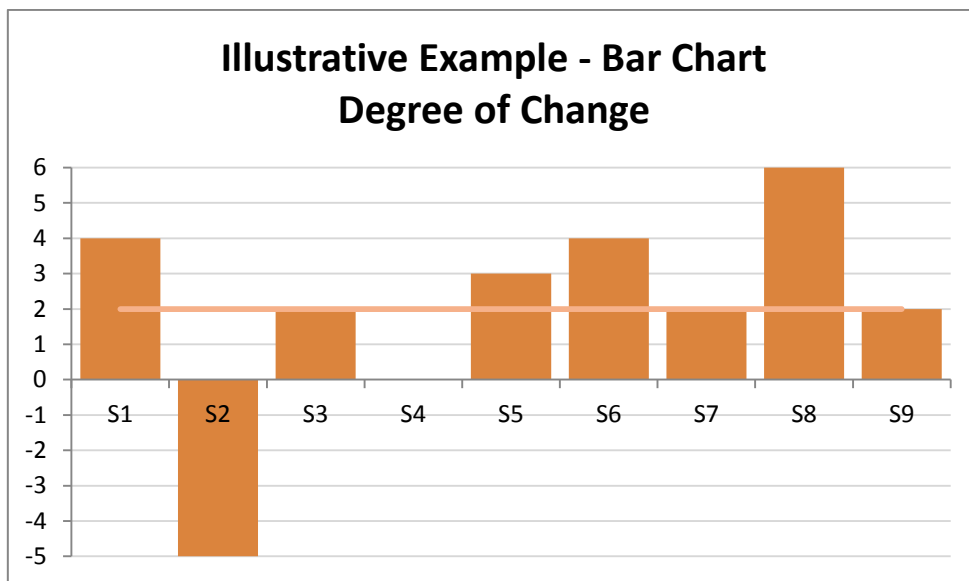


The X-axis represents Interview Subjects 1 through 9.

The Y-axis represents adversarial/collaborative scores from the survey, with the scale of 1-10.

The *red* curve represents the answers given for the year 2000, and the *blue* curve represents the answers given for the year 2015.

Striped lines highlight change from 2000 to 2015 – whether the trend develops towards collaboration (upwards) or towards adversarialism (downwards)



The X-axis represents Interview Subjects 1 through 9.

The Y-axis indicates Degrees of Change, as calculated by the formula presented above.

The *light-orange* line indicates the average change perceived by all subjects for one particular Question, calculated by the formula:

$$QuestionX_{AVG} = \left(\sum_{i=1}^{n=9} Factor_{change} \right) * \frac{1}{n}$$

Appendix C – Interview Transcripts

To enhance readability, maintain anonymity, and reduce the margins for misinterpretation, transcripts from the conducted interviews are presented in their paraphrased versions, rather than the verbatim.

Interviewee: Subject 1

Education: Technical

Company: Service/supply company

Relevant Experience: 35 years

Threshold

Throughout the period of 2000-2010 increasing costs were accepted. One of the reasons for these rising costs was changing scopes. One might have started off with wrong assumptions, all the way back to reservoir data. Hence, a thorough early-phase will improve the chances of remaining within budgetary constraints.

The STEP (Statoil Technology Efficiency Programme) seems to be a genuine effort to reduce costs and secure gains. As part of this program, Statoil is currently undergoing processes to reduce redundant documentation. At the same time, they are working towards standardization, as an alternative to tailoring each project independently.

One might claim that the company has been too dominated by engineers up until 2010; too much creativity and desire to know and investigate, which has led to incredible amounts of documentation demands.

The last five years have seen the emergence of a counter force – commercialism. The engineer-made bureaucracy is being reduced by use of contracts and financial governing mechanisms.

Commercialization

It is apparent that Statoil has undergone a generational change over the last decade. Initially a company valuing technological development, it has become a corporation where commercial and contractual forces dominate.

This commercial attitude has directed contractor-communication towards a more formal style. Attached comes a reduction of face-to-face meetings. These days, variation orders and queries are made in writing rather than verbally.

Commercialization also affects negotiations. There has been a slight change, in which the parties try to maximize their own profit to a greater extent, rather than finding win-win-solutions. At the same time, both parties seem to have cultivated a more open attitude towards finding common cost-reductions at the benefit of both parties.

In the 80s, there was a clear tendency of cultivating relationships with one's trusted suppliers and relations were still more important in 2000. The difference from today is quite significant, where one has distanced the decision-making from the operational levels. This has caused a

larger gap between the employees on either side. This is also believed to be turning around, but relations at present, is dominated by contractual governing.

When relations were stronger, trust was higher. Today, when relations are weaker, there is naturally less trust between the parties. However, there is no doubt in either actor's mind that both parties conduct themselves in a professional manner.

In the beginning of the noughties, Statoil turned towards more commercial governing mechanisms. It is hence observed that price has become more significant in contract awarding processes. That is not to say it was unimportant in 2000, but it is clear that price is the absolute governing factor in award today.

Looking forward, it appears the tide is turning, and goodwill is again becoming increasingly important; Statoil wants to use suppliers they can trust to deliver, and contracts last longer as a result.

It is believed that suppliers are more self-controlling than before. Statoil still has people on site following up on progress, but does not interfere in the same way as before. This too, has changed in line with increased commercialization.

Cultural Changes

The culture of Statoil might have been somewhat adjusted with the merger of Hydro, as this is claimed to have been a more commercially competent company. On the other hand, it is apparent that many former Hydro-employees have left the company, and very few are in the leadership. It is thus argued that other factors probably have contributed more to the transformation.

It is argued that the Statoil has, since the last millennium, recruited a larger percentage of theoreticians, in lieu of practitioners. Where the company's leaders formerly were technical personnel, they are today ascending through the commercial departments. This has led to decision-making processes taking place at a higher level in the company, which somewhat impairs project managers' ability to act adaptably.

The decision-makers of Statoil hold less practical competence than they did before. However, this seems to be turning around; it seems one can graph this trait over time by a sine-curve. In the 90s Statoil was very practically oriented. Since the 2000s they have become very theoretical; and now the pendulum seems to have reached its apex.

One typical indication of whether the company is dominated by technical or commercial forces is how incentives are designed. Companies like ExxonMobil, believed to be a technically focused company, use carrots – Statoil employs the stick.

Risk Allocation

Statoil seems to want to transfer the cost-risk onto its suppliers by use of commercial craftwork, which in turn may damage their suppliers financially. In the long run, it is believed this tactic will prove damaging to the company, as the Norwegian oil industry will suffer, and Statoil may see the demise of some of its core suppliers, as well as the deterioration of a competent workforce.

The economic margins have always been with the oil companies, not their suppliers. Therefore, Statoil has had the capability of soaking up the risk. In a sound economical transaction, risk cannot be given away – one must pay for others to absorb it. Statoil has not done this with its suppliers. On the contrary, Statoil has used internationalization, particularly Korean actors, as a lever, to force Norwegian actors to take more risk and reduce prices. Previously, much of the actual risk was placed on Statoil, as penalties were rarely enforced. Now, however, contractual specifications are being tightened, transferring this risk onto suppliers in reality, as well as on paper.

The cost-cutting mentality of Statoil is in many ways conflicting with the quality-dimension, as one cannot necessarily buy quality-products off the shelf. They have tried to shift the quality-risk over towards the supplier to induce this. One often uses cost-reimbursable-contracts for engineering and procurement services, and lump sum-contracts for fabrication. This has not changed particularly since 2000.

Market Developments

There are three parts to the EPC-contract – Engineering, Procurement and Construction. Statoil has since 2000 granted many of these contracts to Asian companies, which excel at Construction. However, they have no experience with the EP-part. These tasks have therefore been subcontracted. What has become apparent is that the C-companies have not been able to manage the project, due to a lack of competence.

This strategy implies that Statoil has used unprofessional EPC-contractors to pressure the professional ones, particularly Norwegians, to reduce their prices, by increasing the number of available suppliers. However, it seems that Statoil has learnt from these mistakes, and will now be using the EPCM-format more. Here, the EPCM-contractor functions as an extension of Statoil's departments, working in Statoil's name, and subcontracts the EPC-parts of the agreement.

One can compare the Asian contractors to the Norwegians in the 80s. Back then, Statoil issued separated fabrication-contracts to be constructed. One could claim that the awarding of EPC-projects to Asia contributes to building up the same EP-competence there, as was done in Norway in the 90s.

Countering this is the belief that the Norwegian cultural trait of individualism is not something that can be learnt. We work in a more egalitarian environment, and follow processes end-to-end. It is thus argued that Asian actors may not be able to compete with Norwegian ones on the project management aspects, due to these advantageous traits of our culture.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

Contract durations are short				A		B				Contract durations are long
Many invited to compete				B		A				Few invited to compete
Formal communication				B		A				Informal communication
Few face-to-face meetings				B		A				Many face-to-face meetings
Self-centred negotiations				B		A				Win-win collaboration
Price important for award			B		A					Price not important for award
Information is retained				B		A				Free flow of information
Cost savings benefits one party				A		B				Cost savings benefits both parties
Risk is carried by one party				A		B				Risk is shared by both parties
Change of supplier is easy						C				Change of supplier is difficult
Controls are done formally				A				B		Supplier is self-controlled
Contract form: Lump sum						C				Contract form: Cost-reimbursable
Goodwill is not important						A	B			Goodwill is important
Contract is important			B					A		Relation is important
Suppliers do not trust Statoil			B					A		Suppliers trust Statoil
Statoil does not trust suppliers				B				A		Statoil trusts suppliers

Interviewee: Subject 2
Education: Technical
Company: Service/supply company
Relevant Experience: 25 years

Cultural Changes

Statoil, 15-20 years ago, was a company with many employees recruited from the service and supply industry. Many of their technical personnel therefore understood the challenges of production and delivery, and contractors were met with understanding and insight.

Hence, liaisons were open and solution-oriented. The objective was to solve the task at hand as a common unity, framed by the boundaries of the project-organization.

Today, there is a view that many representatives from Statoil lack practical experience from the production and supply industry. This has, in some ways, resulted in a lack of insight as to the challenges faced by the contractor.

Communication, meanwhile, has shifted from informal to formal. The written word is more important than before. Especially electronic communication has replaced many of the uses of face-to-face meetings, and we have subsequently seen a decrease of frequency here. Even so, it is believed that in spite of improved ability to share information, the willingness to do so is slightly reduced.

A new cultural trait is observed in Statoil, characterized as “arrogance”. A part of the organization inhibits this altered attitude towards suppliers. Rather than collaboration and debate, the contractor is increasingly met with instructions.

This culture is associated with a generation change in the company, and correlates negatively with age. Younger theoreticians particularly, who have built their careers within Statoil after graduation, seem to harbour a “top-down” and “us against them”-attitude towards suppliers. Subject 2 recognizes many of the characterizations described in a recent series of articles, published by *Aftenbladet*. [cf. Lewis & Skarsaune (2015), Seglem (2015), Skarsaune (2015)]

However, it is stressed that this does far from affect all projects, nor all employees in the company. Statoil is characterized as a professional and trustworthy actor all-over, but there is a perceptible cultural shift, compared to before. One of the causes for this change is believed to be Statoil’s dominant position on the NCS. This is corroborated when comparing to that of other oil companies. They do not exhibit the same tendencies in their dealing with suppliers.

This emergent cultural trait has contributed to the perception that it was easier to find common ground and mutually beneficial solutions before, and has widened the relational gap between Statoil and contractor. The former “project-organization attitude” is replaced by a more adversary “company-organizational attitude”. Previously, there was a higher degree of mutual respect and equality than today, even though commercial disagreements were voiced as vociferously then as now.

Nonetheless, trust between the parties is still characterized as high and growing. The long relationship between Statoil and its suppliers has led to the belief that both parties are professional actors, believing in each other’s ability and willingness to meet the other’s expectations.

Commercialization

At the same time, contractual matters and authority have been transferred out of the technical departments and into contracting departments. The change of these practices has sparked several disputes, where work has been done by the contractor (presumably under orders by the customer through technical personnel), and later been contested by the contracting department. This further indicates that changing practices within such a massive company is far from easy.

These disputes are decreasing in frequency, as technical personnel increasingly refrain from making committal statements. However, this leaves the project organization with a somewhat incapacitated technical team. Without the necessary authorization, one cannot quickly find solutions to arising problems.

As a result of the commercialization of Statoil, howbeit having yielded short-term results, one has weakened the synergy that existed between customer and contractor.

Comparing to other oil companies, the technical and commercial departments in Statoil seem to be more polarized; in that commercial considerations appear to constrain technical solutions to a greater degree.

This also somewhat affects the importance of goodwill. It is believed that before, power was more concentrated, and one could benefit from personal interaction; whereas today, there are control-mechanisms and bureaucracy hindering the effectuation of quickly agreed-upon solutions.

Complexity of Processes

The complexity of documentation demands is not a Statoil-only phenomenon, but rather an industry issue. Everyone is to blame for the mounting of bureaucracy, and the industry as a whole is working to reduce this. One could mention STEP (Statoil Technical Efficiency Programme) as an example, working to strengthen early-phase planning, improve resource prioritization, and use standardized solutions.

However, Subject 2 has no doubt that these processes will take time. When dismantling parts of a system, many variables must be taken into account. Everything from the planning phases to the operational phases will be impacted, and workers formerly used to the tailored solutions will need to get used to the standardized products.

Although the process has started, the target is yet to remain blurred. There is always the possibility of cutting back too much, which could result in compromised safety. The internal (and external) coordination needed to maintain safety levels, whilst at the same time reducing costs, is extreme.

Risk Allocation

There is also the perception that Statoil has allocated a larger degree of risk onto its contractors; both in terms of warranty-focus, follow-up, and also commercially. It is apparent that the margins of contractors have decreased, as quality- and delivery-time demands are stricter. It is argued that the contractor often attains extra risk, without benefiting from any

correlated reward. Before, when bidding on a lump sum contract (of which it is believed, there were more), one could allow for a higher price-margin to compensate for the risk associated with this contract format.

Today, this is done to a much lesser degree, because the market has intensified over the last decades. More and more suppliers have grown towards the oil-sector from other markets and there is more competition from Asian actors. Concurrently, the market has seen potential customers consolidating, through mergers and acquisitions.

This has led to an imbalance between demand and supply, and as a result, the market price has dropped. The customers (oil companies) reap most of the benefits.

A change in contracting practice has also occurred. Rather than issuing numerous and frequent small contracts, oil companies increasingly operate with larger framework agreements, often including options of 2+2 years. Winning these few contracts is critical to Norwegian actors to keep up the work-flow.

This change in practice has not only brought forth a tighter supplier's market, but also limits Statoil's ability to swap between suppliers. When the company has settled on one contractor, the contract dictates that the relationship is locked for quite some time. Hence one could argue that some of Statoil's flexibility in manoeuvring the market is reduced.

Subject 2 argues that the contractors are mostly self-governed, and that they were more formally controlled by Statoil before. However, the project is not free of interventions by the customer, and this is where disputes arise.

Market Developments

Subject 2 believes that Norwegian contractors are better at project management than their Asian competitors. On the other hand, it is believed the Norwegians need to adapt to become more competitive in the production phases as well.

It is argued Norwegian contractors had an advantage in year 2000, where Statoil's engineers (which dominated the company to a greater extent) felt more comfortable cooperating with a domestic actor than an unfamiliar one. Nowadays, should the Norwegian be 10% more expensive, he would not be able to convince the economists, and it is argued that price-considerations are somewhat more significant than before. However, it is also claimed that several projects sent abroad turn out to be more expensive in the end, than those awarded to Norwegian contractors.

Another possible explanation for the internationalization of awarding contracts is Statoil's ambitions of becoming into a more global actor. The experience gained by cooperating across borders and cultures is valuable to enhance the company's understanding of the markets beyond the NCS, and some argue that Statoil has learnt a lot in its foreign ventures during the last decade. Nonetheless, Subject 2 believes that most of the internationalization strategy of Statoil is focused around operating licences in fields abroad, such as the company's oil-sand projects in Canada.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

Contract durations are short				A					B			Contract durations are long
Many invited to compete			B						A			Few invited to compete
Formal communication			B						A			Informal communication
Few face-to-face meetings					B	A						Many face-to-face meetings
Self-centred negotiations				B					A			Win-win collaboration
Price important for award			B			A						Price not important for award
Information is retained			B			A						Free flow of information
Cost savings benefits one party			B		A							Cost savings benefits both parties
Risk is carried by one party			B		A							Risk is shared by both parties
Change of supplier is easy			A						B			Change of supplier is difficult
Controls are done formally					A						B	Supplier is self-controlled
Contract form: Lump sum					A				B			Contract form: Cost-reimbursable
Goodwill is not important							B	A				Goodwill is important
Contract is important			B							A		Relation is important
Suppliers do not trust Statoil							A	B				Suppliers trust Statoil
Statoil does not trust suppliers								A	B			Statoil trusts suppliers

Interviewee: Subject 3
Education: Technical and later business
Company: Service/supply company
Relevant Experience: 18 years

Threshold

In 2000, the dialogue between Statoil and the supply companies is characterized to have been pragmatic and open. Technical personnel from the supply companies would more often accompany the requester from Statoil on site, and discuss the request first-hand. Statoil's representative would outline the company's vision, and the contractor would respond with a practical solution. This led to a good working relationship, where the parties complemented each other. One could quickly agree upon the way forward, and this would be documented and eventually produced. This represented a very integrated communication strategy.

Mostly system-critical documentation was produced – what was actually needed to understand the upcoming building process, and to operate the delivery on a day-to-day basis.

Market Developments

Since then, a more bureaucratic approach has developed, and it is alleged that Statoil initially found that a number of ventures were ineffectively managed. Due to frequent cost-overruns, new control-mechanisms were put in place, intended to standardize and formalize project governance.

Concurrently, risk is transferred to the contractor, and price has become somewhat more important for the awarding of contracts. Further, standardization and an expanded market have made it easier to change suppliers than before.

As Statoil has requested more project control, contractors have responded thusly. This has led to larger project organizations being formed on both sides, where the agent produces documentation requested by the principal. It is argued this part of the business has spiralled out of control.

This, in turn, increases the need for, and use of, resources on both ends. Much of the documentation produced is perceived to not create any additional value for the project, as it slows down processes and tie up personnel in bureaucratic work.

In the first years of the new millennium, Statoil introduced new contractual requirements for its suppliers, with terms such as “change management”, “weight-control”, “KPI's” (Key Performance Indicators), “planning principles” and “production efficiency”. These are all valuable tools if used correctly and deliberately, but if employed inaccurately, will not reflect reality, and are thus rendered useless.

It is argued that engineers have dominated the company's processes in the past, and been allowed to develop creative, but expensive solutions. The company's bureaucracy is rooted in particularly 3 areas: Documentation requirements, risk management procedures, and measurements and KPI's.

Documentation Requirements

Two examples are presented: The TR1244 and TR2381-specks. These show lists of documentation products that Statoil can order from its suppliers, to support decision making processes. The former lists more than 500 products, out of which, Statoil's employee needs to filter out the unnecessary ones for each individual project. The remaining list of documentation is ordered to be produced by the contractor.

It has been observed that this list is difficult to scale down, and more than necessary documentation is therefore produced. Subject 3 claims that many of these documentation-products are perchance clever and interesting, but not essential for the continuation of development. It is argued that roughly 30 of these 500 are indeed necessary, depending on each case.

Since the year 2000, Statoil has seen the dawn of computerized documentation-approval processes. The depths to which documents can be controlled, and the demands for precision that could be instated, are extreme. This causes a lot of documents to be sent back and forth. One could argue that things are supposed to be done properly, and there was perhaps more carelessness in the early 2000s. However, some claim that a practically feasible middle ground is to be preferred, over today's situation.

In some instances, operational documentation produced by the contractor has increased by a tenfold. The reasoning behind this is to secure a smooth transition between the production and operational phases, to ensure that less time is needed to solve problems in the field.

Risk Management Procedures

In the mid-2000s there was a large change in the way risk-management was performed in Statoil. Project Information Management Systems (PIMS) were implemented, and however much this has brought warranted attention to the importance of the field, it is also argued that the processes involved in using these tools have become overly complex, and thus widened the relational distance between Statoil and contractor.

Statoil has indeed succeeded in improving safety, and the number of injuries and serious incidents has decreased. However, this has come at a high price economically, and one might argue that, although many of these policies are beneficial, some are not. Part of the problem is determining which policies are necessary to maintain safety, and which could be removed.

Measurements and KPIs

Some argue that the usage of KPIs seems to be misunderstood. The intentions for introducing them were good, but the execution does not respond to real-world needs, and so they bring little value to projects in their current form. They are described as a foundation for subjective interpretations, by which penalties are decided.

It is believed that the feedback system is ineffective, where KPIs determines the contractor's performance rating, dating as long back as a year. Receiving feedback for something your predecessor did, (and compensation/penalties thereafter), does not inspire motivation.

In Sum

Subject 3 argues that all these processes, which have been established since the 90s, have contributed to the build-up of organizations impaired by bureaucracy on both sides. Much of the documentation is claimed redundant, as standardization and globalization has ensured that information regarding products is easily and quickly available.

On the one hand, some argue that these control mechanisms have overcome time and cost transgressions. On the other, it is argued that the costs incurred by upholding these controls consume the gains.

The argument to uphold these documentation requirements is the perceived heightened safety factor. Subject 3, however, believes that even though all this documentation is handed over to Statoil, most of it will not be used in the event of an emergency. One should rather rely on competent personnel and open lines of communication.

It is claimed that, as a result of these control mechanisms, the distance between requester and relevant contractor personnel has widened a lot, and is very perceptible in day-to-day activities. Although meetings are held more often, and documentation flows more freely, these do not necessarily include the right people, or the relevant information.

All communication now goes through layers of bureaucracy, technical systems, contracting personnel, and so on. This makes it less deliberate, effective and accurate. An analogy is drawn to the game “pass the message”.

The industry will benefit from a more commercial emphasis. Firmer commercial oversight, where for instance change orders are accepted to a lesser degree, would secure the financial stability of the companies involved. Today, Statoil seems to be implementing a stricter commercial regime, but this often comes at the expense of the contractors. Formerly, the win-win-mentality was more profound.

In preference to using complicated contracts and written checklists, Subject 3 believes that a close working-relationship between principal and agent would be beneficial. This would be characterized by close follow-up and continuous feedback, along with a thorough front end engineering and design-phase.

Future Developments

Whilst contractors are hurting as a result of the current slimming-processes, Statoil is profiting. If the current trend continues, the future seems grim for today's actors, with intensifying pressure from international competitors. The possibility exists, therefore, that the prevalent business-model must be transformed. Should Statoil be capable of transforming the industry back to a lean and agile one, and rid itself of the unnecessary bureaucracy, all parties will be stronger in the future. The worry exists however, that Statoil have become too heavy and sluggish, that it may do so.

Meanwhile, Subject 3 believes that Statoil's trust in their suppliers has decreased, and the importance of goodwill is waning. The perception is that the bureaucratic control mechanisms signal a lack of trust in the contractor's ability to deliver.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

Contract durations are short				A		B				Contract durations are long
Many invited to compete				B	A					Few invited to compete
Formal communication			B						A	Informal communication
Few face-to-face meetings				A			B			Many face-to-face meetings
Self-centred negotiations			B		A					Win-win collaboration
Price important for award		B	A							Price not important for award
Information is retained							A		B	Free flow of information
Cost savings benefits one party	B	A								Cost savings benefits both parties
Risk is carried by one party		B					A			Risk is shared by both parties
Change of supplier is easy		B					A			Change of supplier is difficult
Controls are done formally	B						A			Supplier is self-controlled
Contract form: Lump sum				B				A		Contract form: Cost-reimbursable
Goodwill is not important							B	A		Goodwill is important
Contract is important	B						A			Relation is important
Suppliers do not trust Statoil						B	A			Suppliers trust Statoil
Statoil does not trust suppliers		B					A			Statoil trusts suppliers

Interviewee: Subject 4
Education: Commercial
Company: Service/supply company
Relevant Experience: 30 years

Formalization

Throughout the entire industry, it is more difficult to operate on the basis of relations. There are several reasons underpinning this development. First, stricter regulations and rules govern the companies' employees' ability to interact with each other on a personal level than in 2000. This is done to secure fair competition. Second, following "structured formalization" is a change in culture, wherein one does not participate in, gift-exchange and socializing the same way as before.

This leaves the parties able to convene in job-settings only. In some instances, forming an off-work relationship with one's industrial partners was a good way to earn trust and goodwill. This allowed for quick and pragmatic solutions to be found and implemented quickly in the event of unforeseen incidents, as one could trust the other party would uphold his end of the verbal agreement. These days, one can but rely on the written word.

This cultural shift has also spurred a slight change in the frequency of professional face-to-face meetings. It is believed that electronic communication and formal papers are used as a substitute here. At the same time, it is believed that information was somewhat more willingly shared before, and that it was easier to alternate between suppliers.

Commercialization

Over the last years, Statoil has become a more "commercial" organization. This is demonstrated by the company's growing reluctance to accept variations, in interpreting contractual terms, and so on. Whether or not something is included in the agreement has sparked many a debate over the last decade – more so than before. This is not to say that the contracts in themselves have changed, but the interpretations of their content.

This challenge is amplified by a perceived shift of authority in Statoil. Previously, technical personnel might verbally order changes and adjustments from the supplier on site. The supplier, in turn, would know that this would be duly compensated, and perform the desired tasks.

It is argued that this authority has passed to the commercial departments, and such verbal instructions would be contested. At the same time, the resources dedicated to follow-up on site are believed to become more dominating over the last sesquidecade.

Another reason for this change is the changing of personnel, towards less experienced people, who might be less inclined to make bold decisions. However, the main reason is the streamlining of processes, and partitioning of authority.

Since 2010, most contractual issues have, according to Subject 4, been interpreted in Statoil's favour. Admittedly, there are indications this trend might be turning around, as all parties are getting familiar with the new procedures. Statoil's technical employees are getting to grips with the commercial mindset, and are initiating variation orders less frequently. Concurrently,

Statoil intends to strengthen their early-phase efforts, and this will in turn ensure that fewer changes are needed later on in the project.

Further, it is argued that recent collaborations suggest that both parties are working together to reduce costs. This will benefit both parties.

Whilst commercialization and formalization have enlarged the distance between the parties, Subject 4 still maintains that the parties trust each other. Both parties know the other, after working together for a long time. Nonetheless, Statoil's formalization towards their suppliers could be interpreted as a sign of diminished trust.

Market Developments

One aspect that has laid the basis of the changed relations between Statoil and their Norwegian suppliers is the entry of Asian companies – particularly from South Korea. These actors are more used to fabrication contracts, but have been awarded EPC contracts throughout the last decade, effectively intensifying the competition in the EPC market, by increasing the number of potential participants in a bidding round.

In line with commercial focus, price has become a more important factor when deciding contract award. It is, however, argued that Norwegian contractors' experience with EPC-contracts might have given them more realistic projections of final price than their Asian counterparts. Now that Statoil has gotten more experience with the South Korean companies, it becomes clear that Norwegian suppliers are more competitively able than might have been believed in 2012.

Nevertheless, a perceived change in risk-distribution has followed this market intensification. Statoil has shifted more risk and responsibility onto their suppliers without additional compensation.

Future developments

It is believed that relations will once more complement contractual governing in the future. The benefits of a close and trusted relationship, where one can produce agile and effective solutions on site, will be necessary to ensure cost-effectiveness in the future.

Statoil has probably learnt a lot throughout the last sesquidecade, and a good middle road between relational, and today's regime will be found, when dealing with Norwegian contractors.

It is maintained that one cannot govern Norwegian and Asian contractors in the same manner, and by the same processes. The cultures are too different, and this necessitates different approaches to extract the maximum benefit from the interaction. Norwegian contractors respond better to an informal culture, built on trust and quick solutions, than a formal one.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
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Contract durations are short							C			Contract durations are long
Many invited to compete		B	A							Few invited to compete
Formal communication		B			A					Informal communication
Few face-to-face meetings							B	A		Many face-to-face meetings
Self-centred negotiations				B			A			Win-win collaboration
Price important for award		B	A							Price not important for award
Information is retained							B	A		Free flow of information
Cost savings benefits one party			A			B				Cost savings benefits both parties
Risk is carried by one party			B					A		Risk is shared by both parties
Change of supplier is easy				A			B			Change of supplier is difficult
Controls are done formally			B					A		Supplier is self-controlled
Contract form: Lump sum							C			Contract form: Cost-reimbursable
Goodwill is not important								C		Goodwill is important
Contract is important					B			A		Relation is important
Suppliers do not trust Statoil								C		Suppliers trust Statoil
Statoil does not trust suppliers							B	A		Statoil trusts suppliers

Interviewee: Subject 5
Education: Technical
Company: Service/supply company
Relevant Experience: 16 years

Market Developments

It is apparent the markets have changed significantly over the last decade; before, it was more fragmented, and Statoil governed its now-subcontractors directly to a larger degree, to directly influence the final product. When the markets now have consolidated, and Statoil gives the managing-role to EPC-companies, all official communication must go through these. This has allowed the commercial channels to grow in importance, as increased formalization is needed to avoid conflicts in the aftermath of a project.

However, Statoil's technical personnel seem to be at odds with this system, where they still try to influence the product, bypassing the EPC-company, in certain instances. A division in Statoil is recognized, between technical and commercial forces. The importance of the commercial aspects is noted, in the way that the parties interact.

The global markets have consolidated, and although British and Scandinavian companies were better represented before, one can today observe tougher competition overall, due to a more suppliers in the market. At the same time, the suppliers are characterized as more divergent than before, and it is believed this poses a problem for Statoil, in which its suppliers will need to be met with increasingly varying approaches, making it harder to alternate between them.

Companies have become more and more effective, but projects are also growing in size and complexity. Therefore, little change in contractual duration is noted; and even though it might have turned one way or the other, this is not due to relational changes between the parties.

Commercialization

Price has always been important, but Subject 5 believes that it has become even more so over the last decade. It is argued that Statoil does not seem to heed the cost- and time-overruns incurred by using Asian suppliers. It is argued that Norwegian contractors might seem expensive if quality is deprioritized in the assessment. Many of the projects that have been built abroad have been issued on the same terms as to a Norwegian company, and the cultural implications of interpreting contracts differently have caused failure.

Statoil is believed to have been less cost-oriented before. Now that this is changing, cost savings are retained, rather than benefiting both parties. Furthermore, it is believed that suppliers absorb more risk than before. Previously, whoever took the risk was also compensated, but this is not the case with recent developments. This is connected to a shift in contract formats, where lump sum strategies are increasingly implemented.

Formalization

Generally, the entry of foreign suppliers has introduced a changed approach to interpreting contracts in the market. Particularly Asian enterprises are characterized as highly contract-oriented, whilst the Norwegian suppliers formerly were highly relation-focused. As all companies are adjusting to this change, a noticeable shift towards contractual importance is noted. The significance of relations seems to have disappeared – the contract means everything. The same trend is apparent for the importance of goodwill.

Nonetheless, Subject 5 argues that Statoil seems to approach Norwegian and foreign suppliers differently, where larger follow-up organizations are made to oversee the new entrants, which in turn facilitates formalization.

The interpersonal relations are in many ways unchanged. Subject 5 experiences many constructive liaisons with Statoil employees, and cannot point to any relational-cultural shift within the company. This is corroborated by the steady level of information flow between the companies, and it is believed the attitude towards information-sharing is unchanged, particularly in the technical realm. The same goes for face-to-face meetings.

Communication is believed to always have been, in some areas, rather formalized. Yet one can see a slight shift here towards professionalization. Before, solutions were more easily implemented, without necessarily being followed up commercially, and it is argued the win-win-mentality has been replaced by a more self-centred mindset. Discussions arise more frequently today, whether modifications are included in the initial scope, or whether the extra costs should be billed the principal.

As a result, the levels of trust between Statoil and suppliers is said to have diminished. Before, one could act upon verbal instructions; today, one must memorize the contract by heart, and act accordingly.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

Contract durations are short						C				Contract durations are long
Many invited to compete			B				A			Few invited to compete
Formal communication			B		A					Informal communication
Few face-to-face meetings								C		Many face-to-face meetings
Self-centred negotiations			B					A		Win-win collaboration
Price important for award		B					A			Price not important for award
Information is retained								C		Free flow of information
Cost savings benefits one party			B					A		Cost savings benefits both parties
Risk is carried by one party		B			A					Risk is shared by both parties
Change of supplier is easy			A						B	Change of supplier is difficult
Controls are done formally		B		A						Supplier is self-controlled
Contract form: Lump sum				B			A			Contract form: Cost-reimbursable
Goodwill is not important	B						A			Goodwill is important
Contract is important	B						A			Relation is important
Suppliers do not trust Statoil				B			A			Suppliers trust Statoil
Statoil does not trust suppliers					B			A		Statoil trusts suppliers

Interviewee: Subject 6
Education: Technical and commercial
Company: Statoil
Relevant Experience: 24 years

Threshold

There was a period, following NORSOK in 93, where Statoil wished to pursue the idea of “integrated teams”. The idea was that, instead of simply controlling the progress of the suppliers’ specific projects, one should solve problems as one unit, and divide tasks between the involved parties. Statoil’s reasoning was to utilize their employees’ competence and experience to produce optimal solutions, in conjunction with the supplier.

As a result, responsibilities were blurred, and it became extremely difficult to hold anyone accountable for mistakes, extra costs, or deciding whether warranties applied. One therefore retired this approach, to avoid these conflicts, and to ensure that Statoil was granted its due.

Commercialization

Contractual importance has replaced the collaborative strategy, and there is today little doubt about who should be held accountable. This risk is placed onto the contractor, as the executing part of the agreement.

Nevertheless, Statoil still controls progress and quality throughout the project, and one might argue that Statoil’s involvement, in that it approves suppliers and materials for example, is in conflict with the EPC-principle. For EPC-contracts, risk is transferred onto the contractor, both in practice and on paper.

However, as the activity levels were higher, Statoil used the EPC-contract format to a greater degree before, as close follow-up was generally not needed. As developments on the NCS slow down, Statoil seems to increase the usage of EPCM-contracts, in which the risk is placed on the principal. This counters the argument of risk being placed increasingly on the contractor on a general basis. It is clear that whether it be the oil companies (EPCM) or the contractor (EPC) absorbing the risk, the boundaries are more clearly defined than before.

There is more perceived willingness to industrialize and standardize; before, tailor-made products dominated the market. This balance varies in cycles, depending on the oil price, but the general trend is that price has become more important in the later years.

Contractors seem to have augmented their trust in Statoil throughout the last sesquidecade. Albeit some have been disappointed by particular contracts awarded to foreign actors, it is still clear that Statoil is a professional and reliable actor on the NCS.

Statoil, on the other hand, seems to have lost some confidence in the Norwegian suppliers. This is due to having experienced increased costs and decreased value throughout the 2000s. Having suffered certain failed projects, there is a view that the Norwegian suppliers now need to prove themselves to secure their principal’s maintained trust.

Even so, Statoil still believes it knows its Norwegian suppliers better than the Asian companies, and can use other measures than the contract to govern the relationship to a larger degree.

Market Developments

In Norway itself, the market is quite similar to that of 2000, as the same actors strive for the same contracts. However, with the Asian companies participating in the competition, the market has intensified. This has spurred a change in which both oil companies, but also suppliers, have sent work to the east. This has made it easier to alternate between suppliers, as one has learnt how to deal with foreign actors.

The choice of contract format has split both ways. One has a clearer view of when to use each contract type. Cost-reimbursable policies are used for engineering and procurement, to safeguard quality and influence in the early phases. The lump sum format is used for fabrication. This is the chosen format for the Johan Sverdrup project, for example.

Contract duration depends on the individual project, and it is difficult to define any general development. An emerging trend, though, is the usage of framework agreements with options in certain market-segments. This allows Statoil the opportunity to reward well-performing suppliers with lengthier relationships, based on their KPI-ratings. It is believed this signals a revitalized desire to build long-term working relations, in which goodwill plays a more active part.

This also would incentivize for the chosen supplier to perform well, and also to lower their initial tender price. Experience suggests that Statoil has paid more and received less value for money since the dawn of the new millennium. The framework strategy is a means to reverse this trend. On the other hand, this strategy increases the risk of bankruptcy on the part of those contractors who fail to acquire such a framework agreement; which will in turn reduce competition in the market, allowing prices to rise.

Formalization

The operational communication between Statoil and its suppliers has become more formal. Controls and follow-up are done more formally, but not necessarily by more documentation. The reasoning behind this is to avoid confusion of authority and accountability. It is argued this has resulted in more orderly relationships, which are easier to define. Meanwhile, it is important to note there are many layers in a project organization, and there is still much informal communication between the parties, on a day to day basis.

In some parts of the organization, there are fewer face-to-face meetings with the contractors. These have been replaced with electronic communication. In other parts, there is no change to this practice.

Negotiations are quite similar, comparing 2000 and 2015. There are aspirations to engage in win-win ventures; however, these are quite difficult to nurture in practice. In order to do so, Statoil representatives must understand all parts of the contractors' cost base, and subsequently, cooperation is needed to identify new solutions. This consumes time and resources. The cost focus that has arisen has, therefore, in practice made each party more self-centred.

Subject 6 believes that there is a slight increase in the parties' willingness to share information. This is related to each party's efforts to implement common cost saving measures.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
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Contract durations are short			A					B		Contract durations are long
Many invited to compete			B					A		Few invited to compete
Formal communication			B					A		Informal communication
Few face-to-face meetings				B		A				Many face-to-face meetings
Self-centred negotiations				B	A					Win-win collaboration
Price important for award		B			A					Price not important for award
Information is retained					A	B				Free flow of information
Cost savings benefits one party					A		B			Cost savings benefits both parties
Risk is carried by one party				A	B					Risk is shared by both parties
Change of supplier is easy				B				A		Change of supplier is difficult
Controls are done formally			B			A				Supplier is self-controlled
Contract form: Lump sum					N	A				Contract form: Cost-reimbursable
Goodwill is not important				A		B				Goodwill is important
Contract is important					B	A				Relation is important
Suppliers do not trust Statoil					A	B				Suppliers trust Statoil
Statoil does not trust suppliers				B		A				Statoil trusts suppliers

Interviewee: Subject 7
Education: Commercial
Company: Statoil
Relevant Experience: 24 years

Threshold

In 2000 the market was challenging for the oil companies and their suppliers. Albeit different in origin from the current situation, many of the same effects can be recognized. Attention was, then too, directed towards saving costs, by reducing documentation and streamlining specifications, for instance. Suppliers had to fight for the available contracts, because there were so few.

One of the strategies to combat rising costs was the reliance on principal-agent-cooperation to come up with technical solutions. Close relations were developed between principal and agent, and the parties wished to replace detail-specks with function-specks. It was believed that oil companies had excessively comprehensive specification-demands, and that the supplier knew better what was needed.

Around 2002 the market turned around, and several fields were discovered and developed. This led to a major growth in Norway's petroleum industry, and both oil companies and suppliers benefited. Up until the recent oil-price drop, this positive trend continued.

This allowed for volume, in preference to value, to determine investment strategies. Sticking to plan was deemed more important than sticking to budget, and Statoil therefore allowed higher costs to be incurred.

Encouraged by high costs throughout the last decade, and exacerbated by the recent halving of the oil price, Statoil's attention is again focused on cost savings. However, this time, it seems the suppliers are less included in the processes ahead.

Commercialization

Statoil as an organization has been influenced by several factors since 2000. The first major impact was the listing on the stock-exchange. The second was the merger with Hydro. These events not only increased the company's size and gravity, but introduced a more industrialized cultural view. This has resulted in a more cost-oriented organization, in which technical fascination alone is not enough to have a project approved; profit is also a part of the equation.

The commercial mindset of the company comes as a result of new external powers, rather than the company's engineers losing their influence (which was very distinctive in the previous century). It is an internal reaction which is needed, in order to survive.

One might argue that this new commercial orientation brings with it an adherent need to produce short-term profits. This might in term impair the company's long-term benefits, by for example forsaking technological ventures with little immediate profit.

The contracts' duration has overall lengthened; however, not relative to project size, which has also grown since 2000. The large fields are prioritized due to capital restrictions, and the industry has therefore seen longer-term relations emerge as a result.

Although not pertaining to EPC-contracts, it is interesting to note that other project types have seen a shortening of contract duration, due to standardization and enhanced knowledge of the products. This would include IT-services as an example.

Market Developments

The market has seen the entry of new suppliers, mostly entering from Asia. The few contracts that were awarded around 2000 were mostly, partly because of a national appeal, bestowed upon Norwegian contractors. One could say that the markets were in essence separated, and that European actors rarely crossed the continental border to Asia, and vice versa. Still, with the price levels growing throughout the 2000s, the argument for selecting Asian contractors was strengthened, and consequently, the markets have amalgamated.

Alternating between suppliers is no problem. Nor was it in 2000, but there was a higher barrier of entry to the market, so one might say it is easier to go between companies today.

Part of the reason price levels rose was the rapid expansion of fields, and the subsequent lack of capacity in Norwegian dockyards. As a substitute for the Norwegians, Statoil could go to Asian suppliers with the ability to commence building immediately. Also, due to globalization, Statoil grew more confident in its ability to manage a contractor on the other side of the world.

The importance of pricing has grown in parallel with the cost-focus, and it is believed that it is as important today as before. The situational difference is that the risk-markup associated with using foreign suppliers has decreased, as they have proven their delivering capabilities, along with Statoil having learnt a lot about how to manage them.

Risk Allocation

Lump sum contracts were more widely used before than today. However, this is very dependent on the individual project, and one has seen a number of both contract formats widely used. The intention is to use the contract as a means for win-win possibilities – to provide incentives for both quality and efficiency. Throughout the 2000s, the cost-reimbursable-format was increasingly employed, as this generated better response amongst suppliers. Therefore, the percentage of cost-reimbursable-contracts is seen to correlate with the activity levels of the market.

Much of the risk associated with EPC-projects is being shifted towards the contractor. The suppliers incur a larger portion of the risk because of today's market situation. Nonetheless, it is argued that Statoil holds the ultimate completion-risk of the project, wherein coordination of suppliers, ultimate quality and start-up of production is involved. The oil company is better equipped to handle this macro-economic risk, and therefore should. One aspect here is that due to larger projects, the total amount of risk also grows.

It is believed that the intentions are for cost savings to benefit both parties. However, with the recent market situation, it is suggested that both parties look out for themselves to a higher degree, and as such, savings will benefit one party slightly more today.

Communication

In the implementation-phases, communication is adapted to whom Statoil works with. When dealing with Asian suppliers, for example, contract and formal communication is more important, comparing to Norwegian ones.

Little has changed in terms of how Statoil communicates with its Norwegian contractors. Some things are done formally, as they always have, and some are done informally. One can observe a slight shift towards contracts being more important than before, and this is attributed to the commercial mindset of the company.

There have been some changes with regard to specifications and documentation demands. However, the term “bureaucracy” is discouraged; these are rather new procedures in the way things are done. Compared to before, these processes are more complex and time-consuming, which poses a challenge to restrain costs.

It is further believed that face-to-face communication is at the same level as it was before. Statoil works in proximity with the contractor throughout the project, often in the same building, as it always has done. Similarly, the willingness to share information is the same as before. One might see more information shared today, due to technological steps undertaken.

Around 2000 a lot of attention was directed towards collaboration, and the possibility of obtaining win-win-situations for the parties. Throughout the last decade, scepticism is brewing as to what this term actually comprises, and a slight tuning towards self-centeredness is noticed. One has found that actually identifying the win-win-areas have been incredibly difficult, and the results of collaborative efforts are not beneficial to the expected extent.

That is not to say it was not attempted. After NORSOK, there was a genuine commitment to introduce the collaborative approach. At the same time, one had capacity and resources to attempt it, with low activity levels, and few projects being developed; but as the market heated up, focus was directed to completing projects as fast as possible. The oil companies (fuelled by rising oil prices) incurred the ensuing extra costs, and the win-win-mentality somewhat dispersed.

Personal relations were more important before. As Statoil has gained more information and knows its suppliers better today than before (how they act and react, etc.), and the need for goodwill as a control mechanism is fading. However, it is still important to maintain a professionally sound relationship with the contractor.

There is a high degree of trust between the various parties on the NCS. It is argued that both believes the other acts professionally and can be depended upon. Even so, one might find that commercialization has left the parties somewhat on-guard.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

Contract durations are short					C					Contract durations are long
Many invited to compete		B							A	Few invited to compete
Formal communication					B	A				Informal communication
Few face-to-face meetings					B	A				Many face-to-face meetings
Self-centred negotiations			B	A						Win-win collaboration
Price important for award				B	A					Price not important for award
Information is retained							A	B		Free flow of information
Cost savings benefits one party							B	A		Cost savings benefits both parties
Risk is carried by one party				A				B		Risk is shared by both parties
Change of supplier is easy			B	A						Change of supplier is difficult
Controls are done formally						C				Supplier is self-controlled
Contract form: Lump sum				A				B		Contract form: Cost-reimbursable
Goodwill is not important				B			A			Goodwill is important
Contract is important				B				A		Relation is important
Suppliers do not trust Statoil							B	A		Suppliers trust Statoil
Statoil does not trust suppliers							B	A		Statoil trusts suppliers

Interviewee: Subject 8
Education: Commercial
Company: Statoil
Relevant Experience: 9 years*

** Subject 8 has been working in Statoil since the mid-2000s, and all answers are therefore based upon changes perceived from then until today. However, the subject's current position allows for a broad overview of the market and offers valuable insight into Statoil's emerging strategy. The survey may, as a result, project less prominent change in certain areas, compared to the other subjects' answers.*

Market Developments

There is no doubt that the Norwegian petroleum market has been highly influenced by internationalization over the last decade. In segments where one never before considered foreign suppliers, contracts have been awarded to contractors formerly unfamiliar on the NCS. This trend has emerged as a result of a lack of available capacity amongst the traditionally chosen suppliers – many projects were due to be produced at the same time, and one needed to include foreign contractors into the market to be able to cover demand. This need, in turn, has encouraged a culture of increased willingness to globalize.

The duration of the contracts has not changed particularly. However, Statoil cultivates its relationships in a more deliberate manner, in that it invites relevant suppliers to communicate strategy and ideas, allowing these companies to position themselves for future contracts.

As such, it is time- and resource demanding to enter the market, and so, for Statoil to change suppliers. Nevertheless, one could argue the market was more static before, and an inclination to test out new contractors has emerged. This trend has emerged quite naturally.

Formalization

One might argue there is a slight shift towards formalization in practice, compared to before. Internationalization is partly the cause, but also the Statoil's growth. As the company has become such a dominant actor, attention is brought to its image. This means more people are working with communication, strategy, and "company self-awareness-matters". These aspects of the firm have been more organic before. These considerations necessitate orderliness and regulation, which in turn translates into formalization.

Some suppliers claim that more bureaucracy has resulted. Subject 8 has not experienced any change here, and is doubtful of the testimonials indicating such trends.

A trend is observed within Statoil, where employees desire more clinical relationships with the company's suppliers. This is believed to be an ideological shift, which has not yet properly manifested itself in practice, however.

Although Statoil is assumed to be an attractive customer still, Subject 8 believes that suppliers trust the company less than before. This comes as a result of hardening supplier relations, in which contracts have been terminated, or reduced in value or scope. As the company has matured, Statoil is probably perceived to be more commercial and self-centred.

Conversely, it is also believed that Statoil trusts its suppliers less. The company has developed a more pervasive sepsis towards invoicing and suppliers' ability to deliver. There is a notion that some suppliers have become too comfortable, and have exploited the good times of slack control. It is believed that suppliers were allowed to shift the inflation in their market onto the oil-companies without taking responsibility; and Statoil is now trying to rid the market of such "bad habits" that this period invoked.

Commercialization

Price (which for simplicity's sake here is synonymized with Statoil's evaluation of total costs by developing a project) has become more important. This is also due to heightened consciousness regarding available capital, and how to use this optimally. Especially with the recent periods of heavy investments, Statoil now finds that the company's liquidity needs to be prioritized; hence the focus on cutting costs, until these investments start paying off.

This, however, is maintained to not indicate any "commercial shift" to the detriment of "technical excellence" for the company. Subject 8 believes that the perceived conflict between commercial and technical interests is fabricated, and not necessarily valid in practice. Although some projects (in R&D for instance) are being deprioritized, this is simply a matter of absent available funds.

Much as the parties sometimes have conflicting interests, one can always employ tactics regarding flexibility, predictability, etc., which will minimize risk for both parties. However, in challenging market conditions, disparities become more apparent; Statoil is trying to pressure its suppliers to lower costs, and suppliers likewise to their subcontractors.

There is a prevalent opinion that Statoil has operated with an attractive risk-profile for its suppliers, where Statoil absorbs most of the risk, and employs flexible compensation formats, compared to others using a larger degree of lump sum policies. There has been a shift towards Statoil wishing to direct more of this risk to its suppliers. The company considers who is most capable of managing this risk, and in some cases this is deemed to be the contractor.

As Statoil wishes to standardize, as an alternative to employing reimbursable measures, in certain areas, one can observe a slight shift towards a lump sum approach. This comes as a result of suspected low productivity with regard to certain tasks. Nonetheless, the company is far away from a pure lump sum strategy.

Communication

Subject 8 believes that all of the line managers in Statoil are very solution-oriented and seeks to optimize total project gain; in other words, win-win solutions. When times are tough, however, one can still see that companies withdraw from the collaborative mentality. This is not perceived to be an enduring trend, but merely a response to wavering market cycles. When looking at the big picture, mentalities lean, and have always leaned towards win-win, simply because this is the most beneficial approach for the project, and thus, both parties.

It is argued that Statoil has formerly been oriented towards relation-based contracting. Today, when both parties have become more professional in the follow-up of contractual matters the formal written word has replaced the relational aspect to a certain degree. Subject 8 believes that the traditional relational focus has come as a result of the history of the company, being a means to develop the NCS.

This traditional mentality has stuck amongst certain employees, and they have considered suppliers' interests to a greater extent, rather than invoking contractual obligations. It is believed that the company is improving in this area, and will continue to do so looking forward.

This change is necessitated by the company's internationalization efforts. The usability of relations and goodwill is limited on a global basis, as there are more actors at play, and highly diverging cultures.

The attitude towards sharing information has diminished somewhat. The Norwegian market was previously characterized by a build-up mentality, in which free flow of information to a larger degree was the ideal way of elevating the market as a whole. In line with global awareness, and established Norwegian expertise, we have become more aware of intellectual property rights, patents and company secrets.

Hence has emerged a need to professionalize relationships and internal culture. Nonetheless, Statoil engages with its customers based on an evaluation of previous experience. This naturally means that Norwegian contractors, with whom Statoil has longer experience, will require less follow-up and control than untested suppliers. In addition, the domestic contractors benefit from an inherent understanding of Norwegian law and contracts built on familiar precedents, norms and culture, in that they are valued as "low-risk" suppliers.

Goodwill is mostly beneficial as a safety net, when things go wrong. This has not changed particularly.

Considering professional face-to-face meetings, Subject 8 does not believe there has been any particular change. However, social gatherings, informal dinners and parties, have decreased in frequency. The gift giving-culture is significantly diminishing, and the chasm between business and pleasure is widening. This is due to a cultural change, in which Statoil does not want to be perceived as playing favourites in a professional and competitive market, or making decisions on the wrong grounds. The company's commercial integrity is more important than before, as well as stricter governmental regulations regarding such topics.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

Contract durations are short					C					Contract durations are long
Many invited to compete			B				A			Few invited to compete
Formal communication			B		A					Informal communication
Few face-to-face meetings					C					Many face-to-face meetings
Self-centred negotiations							C			Win-win collaboration
Price important for award		B			A					Price not important for award
Information is retained				B			A			Free flow of information
Cost savings benefits one party								C		Cost savings benefits both parties
Risk is carried by one party				A		B				Risk is shared by both parties
Change of supplier is easy						B	A			Change of supplier is difficult
Controls are done formally					C					Supplier is self-controlled
Contract form: Lump sum				B		A				Contract form: Cost-reimbursable
Goodwill is not important							C			Goodwill is important
Contract is important				B				A		Relation is important
Suppliers do not trust Statoil					B			A		Suppliers trust Statoil
Statoil does not trust suppliers				B				A		Statoil trusts suppliers

Interviewee: Subject 9
Education: Commercial
Company: Statoil
Relevant Experience: 15 years

Structural Changes

Relations are, and have been close between Statoil and its suppliers. The main difference is that today they are more structured and ordered than before. Statoil has, over the last 15 years, undergone a continuous process to systemize its suppliers.

Meetings have always been held, but today there is more structure, as to who goes to which meetings, and at which levels certain topics are addressed. The frequency of meetings is also more ordered and defined.

It is argued this allows Statoil to direct its efforts more precisely in all levels of the organization, where the relevant employee can influence the supplier on the relevant level. Before, things were much more disorderly, and Statoil's influence was diminished in the lower levels of the hierarchy of the project organization as a result.

Although Statoil's commercializing progression has developed over time, costs have still risen. This is due to external factors, which Statoil has been unfit to address earlier, due to the organization's "untidiness". Now, it is believed that Statoil has become capable of dealing with these issues. The company is now using its weight systematically, working alongside its suppliers, to reduce these costs.

Cultural Changes

The structural changes are also reflected in the culture. Today, Statoil's employees seem to focus more on time and agenda, and one employs quantitative measurements and KPIs to assess one's suppliers, as opposed to qualitative characteristics.

The former culture was dominated by engineers to a larger degree. There has been a noticeable shift towards commercial influences in the last 15 years, and this is a natural progression, following the structural changes implemented.

Formerly, the parties prioritized win-win solutions to a greater extent. Nowadays, one finds it necessary to look out for one's own interests. Nonetheless, good reciprocal relations are formed within the projects, and one tries to find solutions benefiting both parties, albeit difficult to locate. Statoil is, after all, well served with a strong and solid Norwegian oil and gas-sector.

Market Developments

Comparing the same market-segment in 2000 and 2015, contract duration has not changed considerably. Whether or not they are shorter or longer today depend more on other factors, such as project size and duration, rather than relational ones.

When the oil price was high, and the company undertook many projects, Statoil was dependent on new companies entering the market, due to little capacity amongst its regular suppliers. Therewith, awarding contracts to less familiar actors was sometimes necessary to maintain market balance, throughout the early 2000s.

It is therefore argued more suppliers were invited to compete before. Statoil has, in the last sesquidecade, gotten to know its suppliers better. As a result, the company can now invite fewer contractors, more specialized to deliver the needed product. Allowing this practice, the markets have cooled down since 2010, liberating capacity from these preferred suppliers.

Further, oil companies on the NCS are no longer bound by certain rules of public procurement and this allows Statoil to choose who gets invited to tender (and the elected contractor) more freely.

Alternating between suppliers has in some ways become easier, as Statoil knows its suppliers better. On the other hand, as fewer suppliers are deemed eligible for each project, this change is minimal, if existing at all.

The fact that Statoil has gotten to know its suppliers, their products and the markets better, has also affected contract award criteria. Technical solutions can more extensively be modelled beforehand today, and scope more clearly defined; emphasis has been shifted from technical aspects to commercial ones. Former evaluations might have favoured technical/commercial aspects with a ratio of 70/30, whereas today 40/60 is more common, depending on the project.

The underlying influence, pushing this trend, is the commercial shift the company has undergone. Although standardization may further this trend, Statoil's efforts in this area has only recently begun.

Contract formats have always been oriented around the cost-reimbursable, but increasingly, Statoil implements policies (capping, milestones, etc.) from the other end of the spectrum. One wishes to use lump sum approaches (in conjunction with the risk-transfer practice), more but this is quite difficult to implement in practice.

Throughout the noughties, Subject 9 claims Statoil has absorbed most of the risk for its projects. This is now being transferred over to the suppliers, with the idea to use this as an incentive to encourage efficiency, and to reverse the trend of rising costs.

Communication

Subject 9 claims communication has become more formal, and that it will continue to become so. This is connected to hardening market conditions – as they grow tougher, Statoil must follow suit, if it wants to compete internationally. Formalization here is regarded as the company's ability to document agreements. Not only Statoil, but the entire market, has become better at this over the last decade.

It is argued that before, agreements were made verbally to a greater extent, and when pay day was due, issues arose as to who was responsible, or indeed that the parties were actually in agreement. Thus, both technical and commercial departments have seen the need for stricter documentation routines.

Comparing 2015 and 2000, the frequency of meetings, as well as formal controls, is on the same level. However, within this period, this has varied in cycles. Subject 9 believes this changes at the behest of the concurrent market situation, rather than relational aspects between the parties.

Subject 9 believes the parties have opened up over the last decade. Statoil has become more conscious of what information should be retained, and what should be shared, to allow the contractor to do its job efficiently. This consciousness has sparked a more open culture, in which the parties share documents more easily.

On the other hand, the commercial focus is more perceptible than before, and this has led to the impression that goodwill has lost some of its importance in the exchange.

Similarly, Subject 9 argues that the importance of relations has had to give way for the new contract-oriented mentality. Statoil's sought-after "tidiness" necessitates contract governance, in contrast with the interpersonal. This change is quite visible.

It is believed that suppliers trust Statoil to the same degree as before. Although Subject 9 believes that contractors probably regard Statoil as "more commercial" than before, the company's trust is still maintained, so long as the contractors know what they will meet.

Subject 9 believes that Statoil's employees, on the other hand, trust the contractors somewhat less, following this last decade. This is connected to the usage of quantitative measurements Statoil increasingly has employed. The company has gotten a clearer view of what has been done wrong, and has professionalized its relations as a result. One might say that previously, Statoil has *needed* to trust its suppliers to a larger degree, whereas today, one can rely on the basis of figures to govern projects.

Mark two brackets; one for how you perceive the situation was in **2000 (A)**, and one for **2015 (B)**, on the scale below:

1	2	3	4	5	6	7	8	9	10
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Contract durations are short							C			Contract durations are long
Many invited to compete			A				B			Few invited to compete
Formal communication				B				A		Informal communication
Few face-to-face meetings						C				Many face-to-face meetings
Self-centred negotiations						B		A		Win-win collaboration
Price important for award			B					A		Price not important for award
Information is retained			A			B				Free flow of information
Cost savings benefits one party					C					Cost savings benefits both parties
Risk is carried by one party			A				B			Risk is shared by both parties
Change of supplier is easy					C					Change of supplier is difficult
Controls are done formally					C					Supplier is self-controlled
Contract form: Lump sum						B		A		Contract form: Cost-reimbursable
Goodwill is not important			B	A						Goodwill is important
Contract is important			B					A		Relation is important
Suppliers do not trust Statoil							C			Suppliers trust Statoil
Statoil does not trust suppliers					B			A		Statoil trusts suppliers

