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Initiation and Development of Project Relationships

A Case Study of a Norwegian Service Company's
Projects with Petroleum Companies Operating
on the Norwegian Continental Shelf

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PREFACE

This project is a pre-diploma study in Strategy and International Business Development. The objective of the project is intended to be a part of a master thesis in Industrial Economics and Technology Management at the Norwegian University of Science and Technology (NTNU).

The purpose of this project was to investigate how project relationships between petroleum companies and service companies develop and are initiated. A literature review was performed to form a theoretical framework. This framework was utilized in the analysis of the empirical findings from a case study of a Norwegian service company.

I would like to thank my academic supervisor Lise Aaboen, at the Department of Industrial Economics and Technology Management, for valuable and patient guidance and feedback. I would also like to thank the people at Aibel AS, who kindly allowed me to cooperate with them in this project.

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ABSTRACT

Increasingly, petroleum companies operating on the Norwegian continental shelf has awarded EPCIC contracts to foreign service companies instead of the Norwegian companies. This has caused concern in the Norwegian service industry. Relationship development and initiation in the petroleum industry has received little attention from researchers. This is the background for the purpose of this project to investigate how project relationships between petroleum companies and service companies develop and are initiated. Through a literature review covering the relevant research into this research field, models were developed to aid a case study on two separate projects between a Norwegian service company, Aibel, and two separate petroleum companies operating on the Norwegian continental shelf. Two research questions were constructed; (1) How does the relationship between Aibel and the client develop before and during the projects? and (2) How is the project relationship between Aibel and the client initiated?

This research shows that the project relationships between petroleum companies and service companies develop in a semi-linear process through unpredictable states. The transitions between the states are indistinct and certain states show signs of overlapping. A high amount of pre-contract activity is discovered, while the complexity of the projects and unforeseen occurrences cause the need for post-contract development and maintenance activities. The prior experience the project relationship parties have with each other is essential in the initiation processes, and the initiation process follows from a mutual recognition with the co-development of a project or the inquiry of an already specified project. This research identifies a connection between activeness in the initiation, and the development of the project relationship. Activeness in the development of the project in the initiation phase leads to a lower need for maintenance activities in the initiation and development activities after the signing of the project contract.

Managers of service companies are advised to: (1) Maintain and nurture activities and experience with preferred companies and project types, (2) Co-develop projects with clients through study work and FEED, (3) Develop personal relationships to benefit future project relationships, and (4) Consider location of operations carefully. Finally, the conclusions of the research suggest further research into: (1) Investigation of more service companies and a broader range of different project relationships between these companies and petroleum companies, (2) The activeness of service companies in the development of project specifications, (3) The actual value of study work, FEED, and similar pre-project activities. The intention of continuing this research by investigating South Korean service companies in a master thesis is also expanded on.

TABLE OF CONTENTS

| | |
|---|----|
| Preface | 3 |
| Abstract | 5 |
| Table of Contents | 7 |
| List of figures | 9 |
| 1. Introduction | 11 |
| 1.1 Background | 11 |
| 1.2 Research questions | 13 |
| 2. Literature review and theoretical framework | 14 |
| 2.1 Relationship initiation and relationship development | 14 |
| 2.2 Definition of a relationship | 14 |
| 2.3 Relationship development | 15 |
| 2.3.1 Stages theory | 15 |
| 2.3.2 States theory | 19 |
| 2.3.3 Six states model | 20 |
| 2.4 Relationship initiation | 23 |
| 2.4.1 Definition of relationship initiation | 24 |
| 2.4.2 Different approaches to investigate the relationship initiation processes | 25 |
| 2.4.3 A new model of relationship initiation process | 28 |
| 2.4.4 Key features and processes of initiation | 30 |
| 2.5 Summary of the literature review | 32 |
| 2.6 New model of relationship initiation | 33 |
| 3. Methodology | 37 |
| 3.1 Case study | 37 |
| 3.1.1 Why interviews? | 37 |
| 3.2 Selection of case company | 38 |
| 3.3 Choice of interviewees | 39 |
| 3.4 The interviews | 39 |
| 3.5 Analysis of methodology | 41 |
| 3.6 Reflections on methodology | 41 |
| 4. Case descriptions | 43 |
| 4.1 TPC project | 43 |
| 4.2 GEMC project | 47 |
| 5. Analysis | 50 |
| 5.1 Development of the project relationships | 50 |
| 5.1.1 TPC project | 50 |
| 5.1.2 GEMC project | 53 |
| 5.1.3 Evaluation of the project relationship development | 55 |
| 5.2 Initiation of the project relationships | 55 |
| 5.2.1 TPC project | 56 |

| | |
|---|----|
| 5.2.2 GEMC project..... | 59 |
| 6. Discussion..... | 62 |
| 6.1 Stages theory..... | 63 |
| 6.2 States theory | 63 |
| 6.3 The six states model..... | 63 |
| 6.4 The four perspectives on relationship initiation | 64 |
| 6.5 A new model of relationship initiation process..... | 65 |
| 6.6 Key features and processes of initiation | 65 |
| 6.7 Initiation and development of the project relationships..... | 67 |
| 6.8 The interview findings in relation to the background for the research | 69 |
| 7. Conclusion | 69 |
| 7.1 Managerial implications..... | 70 |
| 7.2 Further research..... | 71 |
| 7. Bibliography | 73 |

LIST OF FIGURES

| | |
|--|----|
| Figure 1 - Six states model: States and possible transitions (Batonda & Perry, 2003, pp. 1480)..... | 21 |
| Figure 2 - A new model of the relationship initiation process for business-to-business professional services (Edvardsson et al., 2008) | 30 |
| Figure 3 - New model of relationship initiation showing statuses, forward and backward transitions, activeness and intentionality | 36 |
| Figure 4 - Transitions between states in the TPC project | 52 |
| Figure 5 - Transitions between states in the GEMC project | 55 |
| Figure 6 - Transitions between statuses, activeness and intentionality in the TPC project | 57 |
| Figure 7- Transitions between statuses, activeness and intentionality in the GEMC project | 60 |

1. INTRODUCTION

This project will investigate the processes of relationship initiation and development between service companies in the petroleum industry and their clients.

1.1 BACKGROUND

The Norwegian petroleum industry is Norway's biggest and most important industry, employing around 150 000 people. In 2012 it counted for over 23% of the country's total value creation, and investments in exploration, field development, transport infrastructure and onshore facilities amounted to almost 29% of total fixed capital investments (NPD, 2013). The Norwegian supplier industry provides services within exploration activity, new developments, operations, maintenance, modification and abandonment of fields. Together with the petroleum companies they also provide strong impetus for innovation and technological development in other Norwegian industries (NPD, 2013).

In the early months of 2013 Norsk Industri, accompanied by Norwegian service companies like Aibel AS (Aibel), Aker Solutions and Kværner, voiced concern that a majority of the major engineering, procurement, construction, installation and commissioning contracts (EPCIC contracts), on Norwegian continental shelf, were going to contractors abroad, in spite of high activity. Among the most awarded foreign companies are South Korean Daewoo Heavy Industries and Samsung Heavy Industries. In June, 2013, Rystad Energy, on behalf of Norsk Industri Olje og Gass, delivered a report systematically investigating the topside contracts in the last ten years, concluding that Norwegian suppliers can be competitive. While Norwegian tenders, after negotiations, are around 30 % higher in price, the combination of better reliability on delivery, shorter lead time and lower monitoring costs more than offset higher manufacturing costs (Offshore, 2013).

In November, 2013, a workgroup established by KonKraft and with representatives from Norwegian service companies, petroleum companies (operators), and unions, presented a report on the competitiveness of Norwegian supplier industry. The report concludes that there is a need for improvement initiatives that will strengthen cooperation between suppliers and operators before tender processes. Furthermore, suppliers and operators should build routines, systems and a culture for better information flow and exchange of experience between them (KonKraft, 2013). These challenges relates to how interactions between service companies and petroleum companies are handled, both before and after contractual relationships are established. In light of this, there is a demand for research into how relationships are initiated and develop in this industry to guide and inform the improvements that are required.

Article search shows that there has been little research into buyer-seller relationships in the petroleum industry, despite its size and importance both in Norway and worldwide. This project aims to contribute to this research and the understanding of relationships in the petroleum industry. Investigating the processes that determine how relationships between service companies, and oil exploration and production companies are initiated and develop, can offer a perspective that can shed light on why and how the major contracts are awarded and why Norwegian service companies loose out in competition with foreign contractors. At the same time it can offer new perspective on the foreign service companies' internationalization process.

Internationalization literature utilizing the relationship or network relationship perspective have emphasized research into with whom, where, when and why companies, searching for international markets, should develop relationships (Johanson & Vahlne, 2009; Ojala, 2009; Coviello & Munro, 1995; Zain & Ng, 2006; Johanson & Mattsson, 1988). Building on their Uppsala internationalization process model, Johanson & Vahlne (2009) conclude that a company's relationships have considerable impact on which geographical markets they decide to enter and with which entry mode. Coviello & Munro (1995) conclude that entrepreneurial firms' foreign market selection and entry emanate from opportunities created through formal and informal network contacts, rather than solely from strategic decisions. Their international market development is heavily reliant on their relationships for marketing-related activities. Zain & Ng (2006) confirms many of the findings in Coviello & Munro (1995). Among other things, they add that penetrating smaller, less competitive markets initially can help firms reach their target market, and that relationships can ease dealings with government officials in foreign markets (Zain & Ng, 2006). Ojala (2009), on the other hand, argue that knowledge-intensive SMEs' target country and entry mode is chosen without influence of relationships. After entry, relationships are developed to achieve market entry. Johanson & Mattson (1988) suggests that actions in internationalization should be taken in response to other actors in the market, and that timing of actions is crucial to success. They also note that strategic discretion is constrained by the character of a network. The question how the individual relationships should be initiated and develop has, however, not received much attention. Kallevåg & Moen (2007) is an example of research into internationalization topics in a relationship development perspective.

This project and further research will attempt to utilize the relationship development perspective to illuminate the problems Norwegian service companies have with securing important contracts in competition with foreign companies, and by which strategies foreign service companies are able to gain an increasing foothold in the Norwegian industry. *The purpose of this project is to investigate how project relationships between service companies and petroleum companies operating on the Norwegian continental shelf are initiated and develop.*

In order to do this I have chosen to do a case study on a Norwegian service company's project activities on the Norwegian continental shelf by interviewing the project managers of two of their biggest current projects. Models describing initiation and development of relationships developed in the relationship development literature will be investigated and utilized to serve this purpose. Investigating a Norwegian service company and utilizing specific models will provide a comparative basis to investigate the relationships between foreign service companies and the petroleum companies operating on the Norwegian continental shelf.

1.2 RESEARCH QUESTIONS

The purpose describes two processes: initiation and development. To investigate these two processes separately, calls for a separation of the purpose into two research questions. The questions are developed to accommodate the case study investigating a Norwegian service company. Q1 concerns how the specific relationship between Aibel and the project client develop, and Q2 concerns the initiation of the relationship. Together they will answer how examples of project relationships between service companies and petroleum companies operating on the Norwegian continental shelf are initiated and develop. There is an overlap between the two research questions in that Q1 will examine the development process before the project, and Q2 examines the initiation phase before the project is agreed. The investigation will primarily utilize different frameworks to answer the two research questions, but the two perspectives will partly converge in the discussion and conclusions.

The case company I chose to investigate is Aibel. Aibel is one of Norway's biggest service companies, delivering engineering, construction, modification and maintenance services to the petroleum and renewable energy industry. The company is currently present on 30 of the 70 platforms on the Norwegian continental shelf. Aibel was also represented in KonKraft's workgroup. The first case project is a modification project called TPC where Statoil Operations is the client. The second case project is a framework contract comprising several modification projects called Greater Ekofisk Modifications Contract, and ConocoPhillips is the client.

Q1: How does the relationship between Aibel and the client develop before and during the projects?

Q2: How is the project relationship between Aibel and the client initiated?

A project is defined as a unique venture with a defined start and end, conducted by people to meet established goals (Pinto, 2013). A relationship will be defined as a process of continuous interaction and exchange between actors. A project relationship is therefore the interactions and exchanges within the frame of the project between the actors involved in the project. The initiation of a project relationship is the process that leads to a project relationship and ends when a project agreement has been made.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This section will present the relevant literature that constitutes the basis for the research in this project. In addition, the theoretical frameworks utilized in the analysis of the case study will be developed and presented.

2.1 RELATIONSHIP INITIATION AND RELATIONSHIP DEVELOPMENT

The focus area of the review will be the models that have been made to describe the relationship development processes. The first part of the review will investigate the different approaches and models to describe relationship development as defined. The second part will focus on the initiation stage of relationships as defined.

2.2 DEFINITION OF A RELATIONSHIP

The last two-three decades have seen a growing interest among researchers in interfirm relationships in business markets. Contrast to previous emphasis on short-term aspects, increasing attention has been paid to relational aspects of business (Holmlund, 2004). This has resulted in different conceptual models to provide understanding of the nature of relationships. This literature review will focus on these models.

According to Holmlund & Törnroos (1997), relationships have been described from many different perspectives in the marketing literature. One perspective results in a description of antecedents, contents and consequences. Another perspective looks at activities and exchanges in a relationship. Focusing on the individuals, relationships can be analyzed from a socio-psychological and/or political perspective. In addition, relationships may be viewed from an economic perspective (Holmlund & Törnroos, 1997).

In a business context, Holmlund & Törnroos (1997) has defined a relationship as “an interdependent process of continuous interaction and exchange between at least two actors in a business network context”. This definition corresponds to definitions of relationships found in the interaction and network approach in business marketing. It encompasses dyadic relationships as well as relationships with more counterparts.

2.3 RELATIONSHIP DEVELOPMENT

In this section I will present the different concepts and models listed in table 1. The table is a chronological summary of the authors that have contributed to the study of relationship development, and the concepts they have contributed with or to. Stages theory will be shortly explained. The different stages models will be summarized, and the criticism and an alternative Dancing and Mating theory will be presented. Afterwards the states theory will be explained and Batonda & Perry's six states model will be closely examined. The concepts were chosen to accommodate the focus on models that describe inter-firm relationship development processes.

| Author(s) | Concept |
|----------------------------|--|
| Ford (1980) | Relationship evolution (stage model) |
| Porter (1980) | Life cycle model |
| Ford & Rosson (1982) | Relationship evolution |
| Dwyer et al. (1987) | Relationship evolution (stage model) |
| Larson (1992) | Network formation (stage model) |
| Van de Ven (1992) | Life cycle model |
| Heide (1994) | Interfirm governance (stage model) |
| Wilkinson & Young (1994) | Dancing |
| Anderson et al. (1994) | Connectedness of dyadic relationships |
| Hakansson & Snehota (1995) | Developing relationships |
| Wilson (1995) | Stages in relationship development (stage model) |
| Ford et al. (1996) | Relationship evolution |
| Batonda & Perry (2003) | Six states model |
| Wilkinson et al. (2005) | Mating |
| Tyler et al. (2006) | Relationship management |

Table 1 - Concepts in relationship development

2.3.1 STAGES THEORY

There are two popular sets of models of the stages theory: The *growth-stages models of inter-firm relationships* (e.g. Ford, 1980), and *life cycle models* (e.g. Porter 1980). In both these sets of models, the development processes are conceptualized as gradual, sequential and over long periods of time.

2.3.1.1 Life cycle models

Analogous to the life cycle of biological organisms, these models consists of “a number of inevitable stages of birth, growth, maturity and decline” (Porter, 1980, pp. 157-8). These processes are pre-programmed and have a given point of departure and an end configured in the present state (Van de Ven, 1992).

2.3.1.2 Growth-stages models

These models, concerning relationship development in inter-firm networks, consist of sequential/incremental and irreversible stages. “An important source of strength of these models is that they are based on literature from many disciplines and therefore reflect the multi-dimensional aspects of networks” (Batonda & Perry, 2003, pp. 1459). However, because of cultural impact on network development, there is no generally accepted stage model, and they do not provide a broad understanding in the international context. Examples of stage models describing the relationship development processes are: The relationship evolution model in Ford (1980), the relationship development process presented in Dwyer et al. (1987), the network dyad formation process presented in Larson (1992), the relationship development process presented in Kanter (1994), the interfirm governance typology in Heide (1994), and the stage model in Wilson (1995) building on Dwyer et al. (1987). The following table shows the different stages and description of activities in the six models:

| Dimension | Ford (1980) | Dwyer et al. (1987) | Larson (1992) | Kanter (1994) | Heide (1994) | Wilson (1995) |
|-----------------------|---|--|--|--|---|---|
| Searching processes | <i>Phase 1 – the pre-relationship stage</i> Evaluation of potential supplier based on experience uncertainty and distance No commitment at this stage | <i>Phase 1 – awareness</i> Positioning and posturing of parties to increase attractiveness to one another Interaction between parties has not transpired | <i>Phase 1 – preconditions for exchange history</i> Personal relationships Prior relations Firms' reputations | <i>Phase 1 – courtship</i> Two or more companies are attracted, discover their compatibility and their formation rests largely on hopes and dreams Selective perceptions reinforce the dreams, not the dangers | <i>Phase 1 – relationship initiation</i> Evaluation of potential exchange partners' aspects Initial negotiation about subsequent relationship Preliminary adaptation efforts | <i>Phase 1 – search and selection</i> Finding and assessing appropriate potential partners based on the reputation for performance and trustworthiness Initial interaction and social bonding may begin |
| Starting processes | <i>Phase 2 – the early stage</i> Potential suppliers are in contact with purchasers to negotiate or develop specifications Testing period for potential suppliers | <i>Phase 2 – exploration</i> Parties gauge and test the goal compatibility, integrity and performance of the other in key sub-processes Termination of the fragile association is simple | <i>Phase 2 – conditions to build</i> Mutual economic advantage Trial period One firm is initiator | <i>Phase 2 – engagement</i> Plans are drawn up and deal is sealed Success in the engagement depends on balance between the personal and the institutional structures | <i>Phase 1 – relationship initiation (continued into this phase)</i> Selective entry based on abilities and long-term goal capability | <i>Phase 2 – defining purpose</i> Determining and defining set of mutual goals and objectives Laying out foundation for generating common understanding and sanctioning of the relationship Limited commitment between parties |
| Development processes | <i>Phase 3 – the development stage</i> Adapting to meet needs of other companies Honoring contracts and integration aspects Joint planning of responsibilities | <i>Phase 3 – expansion</i> Continued increase in benefits and increased interdependence Trust and joint satisfaction lead to increased risk taking Additional gratification sought from the current exchange partners | | <i>Phase 3 – housekeeping</i> Partners begin to live together Discovery of partner's different ideas about business | | <i>Phase 3 – boundary definition</i> Defining set of informal rules on how partners may call on resources Commitment of resources and people to the relationship to complete tasks Adaptation of process and product or services to accommodate partners <i>Phase 4 – value creation</i> Creation of value through synergistic combination of partners' strengths and better cost management in all aspects of firm's operations Sharing of value depending on power/dependence relationship and structural bonding |
| Maintenance processes | <i>Phase 4 – the long-term stage</i> Characterized by companies' mutual importance to each other Institutionalized patterns <i>Phase 5 – the final stage</i> Long established and stable markets Extension of the institutionalization process | <i>Phase 4 – commitment</i> Relational continuity between exchange partners measured by inputs, durability and consistency Partners resolve conflict and adapt fuelled by the ongoing benefits accruing to each partner | <i>Phase 3 – integration and control</i> Operational integration Strategic integration Social control | <i>Phase 4 – compatibility</i> Partners devise mechanisms for bridging differences and develop techniques for getting along together | <i>Phase 2 – relationship maintenance</i> Joint planning efforts subject to change and modification Adjustment based on mutual agreement, self-control and negotiations | <i>Phase 5 – hybrid stability</i> Commitment develops through combinations of key variables such as trust, performance and satisfaction Stable relationships result from partner's active involvement |
| Termination processes | | <i>Phase 5 – dissolution</i> The costs of continuation or modification outweigh the benefits Emphasis on bilateral efforts for relationship development; but dissolution is more easily initiated unilaterally | | <i>Phase 5 – dissolution</i> Costs of continuation or modification outweigh the benefits Reliance on bilateral efforts for relationship development; but dissolution is more easily initiated unilaterally | <i>Phase 3 – relationship termination</i> Termination based on open-ended interactions | |

Table 2: Comparison of six different stages models (Batonda & Perry, 2003)

While there is no interaction in the searching processes in Dwyer et al. (1987), initial negotiations are present in Heide (1994), and interactions are also possible Wilson (1995). In searching for potential suppliers for a project it is likely that a buyer also searches among suppliers from previous projects. It is also likely that interactions between these parts will affect the searching processes, even if the interactions are not a part of the specific project. In Ford (1980) and Larson (1992), experience and prior relations are factors in the searching processes, while these are not emphasized in the other models. In the starting processes, a deal is agreed in Kanter (1994), while there is limited commitment in Wilson (1995). Ford (1980) also includes a contract in development processes. A deal, represented by an EPCIC contract will imply strong commitment from both parties in the project relationship. In maintenance processes, Dwyer et al. (1987), Kanter (1994) and Heide (1994) emphasizes joint activities to resolve conflicts or handle change. In the development processes status, Ford (1980), Dwyer et al. (1987), Kanter (1994) and Wilson (1995) emphasizes accommodation and integration activities.

2.3.1.3 Criticism of stages theory models

Batonda & Perry cites, among others, Quinn & Cameron (1983) in stating that the assumption that inter-firm network processes occur in sequential/incremental and irreversible stages is questionable because the processes affecting the outcome might be too complex and uncertain to predict. Quinn & Cameron (1983) states that “little is known about characteristics of early developmental stages, or about the processes by which organizations progress from one stage to another” (pp. 34). Research has shown that inter-firm relationships rarely go through a step-by-step development process (Ford, et. al. 1996). The complexity of networks (Johannisson, 1986), means that stages models have problems explaining development in the boundaries between stages (Batonda & Perry, 2003). Factors that influence activities when relationships move between stages are not discussed, and failure activities or stagnation is not investigated since a successful progression through stages is assumed (Batonda & Perry, 2003). There is also a absence of longitudinal studies (Andersen, 1993), that questions the empirical validity of the models (Batonda & Perry, 2003). The models have also been criticized for not analysing the effect of cultural influence on inter-firm network development processes. E.g: “The authors have suggested in this paper that there is currently a different approach to carrying out negotiations in most Western countries compared to China” (Buttery & Leung, 1998, pp. 387).

Wilkinson & Young (1994) offers an alternative view to the life cycle model and introduces a new metaphor with the term “dancing”. The dancing metaphor captures the role of cooperation, where value is created by firms working with other firms rather than for their own separate actions (Wilkinson & Young, 1994). It leads to a process view rather than a structural view of relationships, and different dances reflects the

different degree of coordination and cooperation tasks needed between firms in a relationship and in a specific industry (Wilkinson & Young, 1994).

In Wilkinson et al. (2005) the metaphor is expanded with the introduction of the term “mating”. Following the metaphor they discuss how firms seek partners with certain characteristics that make a successful relation. They draw on two areas of theory: Assortative mating and sexual selection from biology and social ecology, and relationship formation and stability based on Heider's balance theory (Wilkinson et al., 2005). They conclude that firms seek out counterparts that are similarly or complementarily positioned in the market. Similar firms are more likely to be able to understand each other and work together, while complementary resources and skills are attractive when firms cannot efficiently provide these themselves (Wilkinson et al., 2005).

2.3.2 STATES THEORY

Partly based on research findings that the inter-firm network development is complex evolving in a non-structural way (Anderson et. al., 1994; Hakansson & Snehota, 1995; Bell, 1995), states theory “proposes that the change process is an evolution of unpredictable states” (Batonda et. al., 2003, pp. 1466). A “state”, unlike a “stage”, is one of several possible conditions, which means that the relationship development process is not necessarily orderly or progressive (Ford & Rosson, 1982). States theory springs from the criticism of stages theory and builds upon the stages models. Batonda & Perry's six states model is an example of this.

Andersen et al. (1994) focus on relationship *states* in the dyadic relationship perspective. They reconcile the focus on states with the focus on *activities* in the network perspective, by stating that the outcome of activities, when evaluated by the actors, provides judgments of relationship states. The relationship state is thereby not just dependent on the activities between the firms in the relationship, but also the outcome of these activities, suggesting that the development process is unpredictable. Hakansson & Snehota (1995) also describes relationships in terms of relationship states. They posit that how a company views its relationships varies among the parties of the relationship and that a company has virtually no way of accurately predicting a future state (Hakansson & Snehota, 1995). In their model, Hakansson & Snehota (1995) identify factors for change in relationships and suggest that understanding the mechanisms and processes of change, rather than the effects of them, can help management cope with the change.

2.3.3 SIX STATES MODEL

Batonda & Perry (2003) concludes that “the network relationship development process is not an orderly progression of phases over time, but is essentially an evolution of unpredictable states” (pp. 1477). This corresponds with the criticism of stages theory presented in section 2.3.1.3, and with states theory. Further, they suggest that “the process is complex, iterative, and frequently non-linear due to the dynamic nature of human relationships and the nature of businesses and markets” (Batonda & Perry., 2003, pp. 1477).

Building on a synthesized stages model and their research findings, Batonda & Perry (2003) adds a *dormant* and a *reactivation* phase to form a six states model for overseas Chinese-Australian networks. The following model in table 3 has its basis in this six states model. However, to accommodate this research’s focus on specific projects the model utilized in this research has been modified slightly. Some activities are exempted, while others are expanded upon from the analyses of table 2 in section 2.3.2.2:

- Prior experience is included as a factor when evaluating potential partners
- A contract agreement is added as a starting process
- Commitment of resources to accommodate partner and integration activities is added as a development process
- Joint activities to resolve conflicts or handle change is added as a maintenance process

| States | Description |
|--------------------------------|---|
| State 1: searching processes | <ul style="list-style-type: none">• Recognition of purpose and need for going into network relationship• Searching for potential partners from outside and inside sources• Finding more information and cross-checking partners' competence• Looking for a match between need and capability• Evaluation and selection of potential partners based on prior experience, personal (social) and product (economical) attributes• No commitment |
| State 2: starting processes | <ul style="list-style-type: none">• Making initial contact through introduction by trusted third party or direct contact• Establishing rapport, testing of personalities and compatibility of partners• Presenting the purpose/opportunity• Testing/probing of goals and compatibility through development and negotiation of specifications• A contract is agreed |
| State 3: development processes | <ul style="list-style-type: none">• Developing personal relationship and mutual trust between partners• Inter-organizational planning of activities, responsibilities and |

| | |
|--|---|
| | relationships <ul style="list-style-type: none"> • Identification of priorities and formalization of discussion • Direct involvement in business discussions through regular contacts and socialization • Commitment of resources to accommodate partner and integration activities |
| State 4: maintenance processes | <ul style="list-style-type: none"> • Increased commitment of resources to networks • Development of inter-organizational and member adaptations • Joint activities to resolve conflicts or handle change |
| State 5: termination processes | <ul style="list-style-type: none"> • Weighing cost and benefits of staying in or exiting the network relationship • Dissolution of trading relationship due to outside and inside forces • Exiting through soft landing approaches |
| State 6: dormant and re-activation processes | <ul style="list-style-type: none"> • Relationship goes into inactive state due to change in business or project completion or failure to meet individual requirement. • Re-activation of network relationship due to resumption of business activity or emergency of new business opportunity |

Table 3 - Six states model: States and description of activities. Adapted and expanded from table I and IV in Batonda & Perry (2003, pp. 1460-1462, 1479)

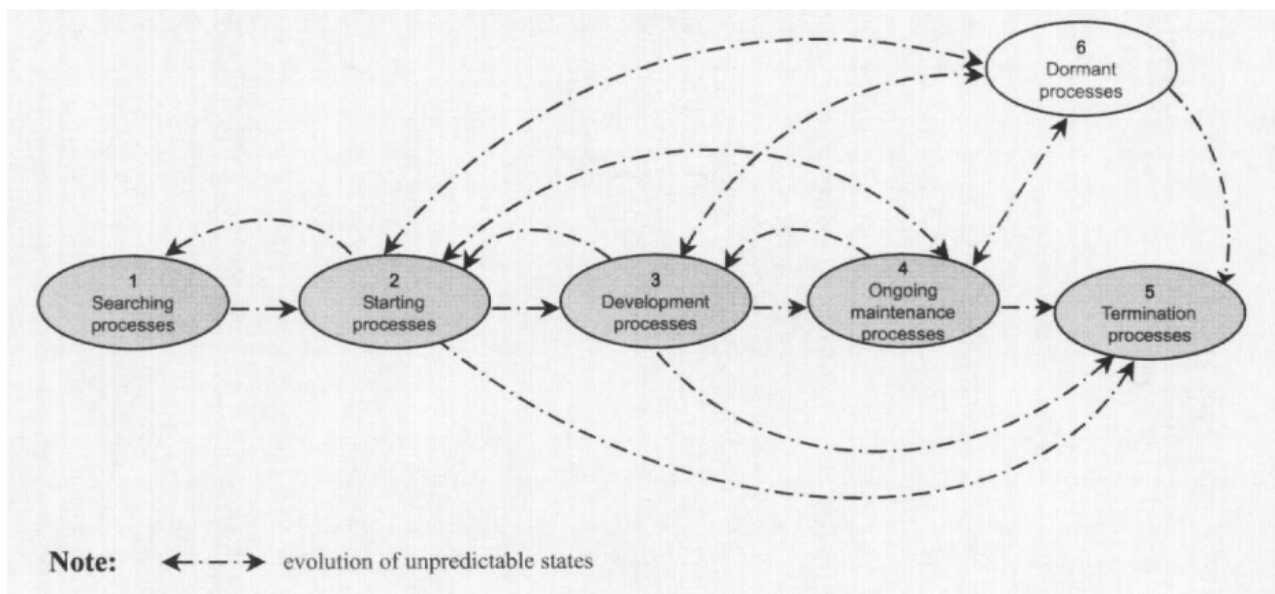


Figure 1 - Six states model: States and possible transitions (Batonda & Perry, 2003, pp. 1480)

2.3.3.1 The use of the six state model & previous research

Since the six states model was developed in Batonda & Perry (2003), there have been few attempts at developing a competing, general, model of relationship development. The six states model have, however, been utilized in various research investigating different forms of relationship development.

Tyler et al. (2006) investigates the development of services business relationship between a global telecommunications provider and a multinational utilities company. Building on the work of Batonda & Perry (2003), they seek to understand the processes that govern the development through unpredictable states to help the development of market applicable knowledge (Tyler et al., 2006).

Kallevåg & Moen (2007) investigates international market growth from a relationship development perspective. Through a review of state models including Batonda & Perry's six state model (2003) they identify three stages: *searching*, *starting* and *developing*, and, in each of these states, important learning issues are identified from the relationship development literature (Kallevåg & Moen, 2007). A case study is performed on a Canadian company in the chemicals industry. The use of, among other literature, Batonda & Perry's six states model is concluded to have good explanatory power on international market development in industrial markets (Kallevåg & Moen, 2007).

Kaunonen (2010) studies the development of industrial buyer-seller relationships in a Chinese context. An aggregate model of six models: Batonda & Perry, 2003a & 2003b; Ford & Rosson, 1982; Halinen, 1994; Niederkofler, 1991 and Rosson, 1996, is developed. Based on a case study it is concluded that relationships develop similarly in the East (China) and in the West (Finland), following a state model, although the duration of the states may differ (Kaunonen, 2010). It is also noted that the dormant and inert state can be a middle state as well as an end state (Kaunonen, 2010). This research is a testimony to the ability of the six states model to describe the development of relationships in a Chinese context, and as the paper concludes, similar business thinking exists in, for example, Japan, Korea and India.

Polonsky et al. (2010) expands upon Batonda & Perry's six states model, and highlights the difference between inactivity and de-actualization in a dormant state. Inactivity prevails when the perceived value of the relationship is high, and the relationship energy is progressive. Reversely, a relationship is de-actualized if the perceived value is low and the relationship energy is regressive (Polonsky, 2010). The perceived relationship value equals the perceived value of investments in the relationship compared to alternative investments. The relationship energy is largely driven by managers' prior interaction frequency and social

bond strength. It is progressive when the firms work to maintain a relationship based on favorable experiences, and regressive if a history of adverse interactions exists (Polonsky, 2010).

In summary, the six states model has been utilized on different research topics. Among them, a case study on business relationships in the service industry (Tyler et al., 2006), a case study investigating international market growth and learning issues (Kallevåg & Moen, 2007), and a case study on cultural factors and differences (Kaunonen, 2010). Common for these research papers is that they develop a model, partly based on the six states model to aid the understanding of specific cases. In the case of Tyler et al. (2006), a multinational utilities network; In Kallevåg & Moen (2007), a small technology firm entering international markets; In Kaunonen (2010), seller-buyer relationships in a Chinese context. These models are, in other words not specifically developed to aid a general understanding of relationship development. Polonsky et al. (2010), however, develops a model and a typology, based on literature review, which is meant to improve understanding of a general, inactive relationship. Their model and typology has not been tested empirically.

2.4 RELATIONSHIP INITIATION

Research has developed several concepts in order to describe the beginning of a business relationship. Table 4, presenting these concepts, was partly adapted from a table presented in Viio (2011), which again was adapted from the literature review in Edvardsson et al. (2008). The table presented in Viio (2011) had gathered most of the research from the literature review in Edvardsson et al. (2008) and gave a good starting point in discovering the relevant literature. However, some of the research listed in the table was not contributing to the area of descriptive models and further article search discovered more relevant research. During this review the table was updated and modified to accommodate the focus area on models. In this section I will present these concepts, and identify the approach taken to form them. The main focus will lie on the model presented in Edvardsson et al. (2008).

| Author(s) | Concept |
|-----------------------------------|------------------------------------|
| Ford (1980) | Pre-relationship stage |
| Berry (1983) | Attracting (customer relationship) |
| Frazier (1983) | Initiation Process |
| Dwyer et al. (1987) | Awareness |
| Ring & Van de Ven (1994) | Negotiation |
| Wilson (1995) | Partner search and selection |
| Webster & Wind (1996) | Buying process |
| Hedaa (1996) | Selling |
| Uzzi (1997) | Social embeddedness |
| Ford et al. (1998) | Pre-relationship stage |
| Batonda & Perry (2003) | Searching processes |
| Moncrief & Marshall (2005) | Initiation phase |
| Aarikka-Stenroos & Halinen (2007) | Relationship initiation |
| Holmen et al. (2005) | Relationship beginnings |
| Edvardsson et al. (2008) | Relationship initiation |
| Aarikka-Stenroos (2008) | Relationship initiation |

Table 4 - Concepts in relationship initiation

2.4.1 DEFINITION OF RELATIONSHIP INITIATION

Following Viio (2008) I will use the concept *relationship initiation* to denote the phase that precedes a relationship. Researchers have chosen different approaches to address when a relationship begins. On a spectrum these range from one-sided *need* and *motive*, or *interest* as a sufficient criteria (Frazier, 1983; Yorke, 1990), through *initial contact* (Batonda & Perry, 2003), and *two-sided contact* (Halinen & Salmi, 2001). Further, Ford (1980) argues that the parties should have begun to *evaluate* each other. Aarikka-Stenroos & Halinen (2007) claims a relationship begins when a *first deal* has been made. This corresponds with the view of Ford & Rosson (1982) that a business relationship begins when a *business exchange commences*.

Following Edvardsson et. al. (2008) I will define the relationship initiation process as a process that “begins when the seller and the buyer in a potential relationship recognize each other, and .. ends when a business agreement is reached” (pp. 340).

2.4.2 DIFFERENT APPROACHES TO INVESTIGATE THE RELATIONSHIP INITIATION PROCESSES

Aarikka-Stenroos (2008) presents four different approaches to investigate the relationship initiation processes:

(1) Relationship development approach

This approach considers the initiation processes as part of the development processes of a relationship, often the first phase:

| Author(s) | Phase related to initiation | Processes and activities found in the description of phase |
|--------------------------|------------------------------------|--|
| Ford (1980) | Pre-relationship stage | Evaluation, using reputation as a substitute to reduce the distance |
| | Early stage | Negotiation |
| Berry (1983) | Attracting | |
| Frazier (1983) | Initiation process | The motive or need arises Scanning potential intrinsic and extrinsic rewards Information gathering |
| Dwyer et al. (1987) | Awareness phase | Building awareness One-way communication |
| | Exploration phase | Attraction is formulated Bargaining Expectations are built Testing future goals |
| Larson (1992) | Preconditions for exchange history | Reducing uncertainty Clearing expectations Enhancing co-operation with prior social relations and reputation |
| Heide (1994) | Relationship initiation | Evaluation of potential exchange partners' aspects Initial negotiation about subsequent relationship Preliminary adaption effort |
| Kanter (1994) | Courtship | Mutual attraction Discovering compatibility Selective perceptions reinforce dreams and not the dangers |
| Ring & Van de Ven (1994) | Negotiation stage | Development of joint expectations about motivation, investment and uncertainties Formal bargaining processes Informal sense-making |
| Wilson (1995) | Search and selection | Performance scanning |

| | | |
|--------------------------------|--|---|
| | | Social bonding Communication to establish comparison level Trust creation Expectations Screening mutual goals and shared values |
| Halinen (1997) | Preconditions | Attraction Awareness of other party's goals, needs and resources Common interest in building relation |
| Andersen (2001) | Pre-relationship phase (and negotiation phase) | One-way communication, awareness building, being aware Two-way communication, risk reduction, attraction, building expectations and trust |
| Batonda & Perry (2003) | Searching processes | Recognition of purpose and need Searching for potential partners Information search and cross-checking partners Matching need and capability Evaluation and selection |
| | Starting processes | Making initial contact Testing compatibility and personalities Presenting purpose/opportunity Testing/probing goals and compatibility |
| Wilkinson & Young (1994, 2005) | The dance invitation | Matching |

Table 5 - Relationship initiation as a part of relationship development. Adopted and expanded from Aarikka-Stenroos (2008)

(2) Buyer-seller-approaches

Seller's initiation processes

Selling literature assumes that the selling partner is actively seeking new customer relationships. According to Moncrief & Marshall (2005) the initiation phase of selling processes consists of *prospecting*, *preapproaching*, *approach* and *presentation*. Prospecting involves segmentation, and referrals and networking is utilized (Moncrief & Marshall, 2005). Preapproach consists of activities of researching a potential customer (Moncrief & Marshall, 2005). After contact with customer is established, approach and presentation must demonstrate an ability to resolve the customer's problem (Moncrief & Marshall, 2005). A range of customer acquisition and communication practices, among them Information and Communication Technology tools, are commonly cited. However, “external “advocates” such as satisfied

customers and experts are usually in a significant role, ... through recommendations and communication networks” (Aarikka-Stenroos, 2008, pp. 8).

Hedaa (1996) describes selling as a discrete act involving the sub-processes (a) pre-call planning; (b) getting into contact with prospects; (c) presenting the product or service (features and benefits); (d) persuasion and overcoming objections; (e) closing the sales; and (f) follow-up.

Buyer's initiation processes

The relationship initiation process can be seen as a buying process, where the buyer evaluates a potential seller with certain criteria (Aarikka-Stenroos, 2008). Robinson et al. (1967) identified the phases in the buying process as: recognition of need and a general solution, determination of characteristics and quantity, description of characteristics and quantity, search for potential sources, acquire and analyze proposals, evaluate proposals and select suppliers, select an order routine, and performance feedback and evaluation. Webster & Wind (1996) proposes five specific tasks to be performed in a buying process: (1) identification of need, (2) establishing specifications, (3) identifying alternatives, (4) evaluation of alternatives, and (5) selecting suppliers. The tasks and activities connected to the buying process requires information from many sources, and the buyer's expertise, level of risk, and size and structure of buying organization influence the information search (Johnston & Lewin, 1996). Impersonal sources of information can be relied upon early in the process, while inter-firm relationships and networks become increasingly important when the process progresses, and helps reduce perceived risk (Johnston & Lewin, 1996).

Johnston & Lewin (1996) propose that negotiating strategy and collaborative or problem-solving approach, as opposed to established procedures and decision making guidelines, are more likely to be used between buying and selling firms since the primary goal is to discover the best solution to a purchase problem.

(3) Network approach to initiation

Network literature and IMP-researchers have discovered network aspects of initiation. Due to connectedness, relations can connect non-connected actors and assist actors in reaching new actors (Ritter, 2000). Batonda & Perry (2003) argue that the stages models reflect the multidimensional aspects of networks. Holmen et al. (2005) discerned network-mediated opportunities to relationship initiation, via a connected mediating partner.

(4) Social embeddedness and social activities in initiation

According to Uzzi (1997) social embeddedness creates economic opportunities through signaling reliability and competence, and increasing an actor's capacity to access resources, adjust to unforeseen events and take risks. Social relations can act as negative and positive gate keepers, and may provide a first contact and access or information and recommendations (Aarikka-Stenroos, 2008). Edvardsson et al. (2008) provides empirical evidence and finds that a few key people have a strong impact on the development of the relationship initiation. Dibben & Harris (2001) investigated how business relationships form from social relationships between CEO's, and Aarikka-Stenroos & Halinen (2007) found that personal contacts that aid in the process of relationship initiation are based on personal history, family, friends, education and earlier engagements in firms and organizations. According to Nebus (2006), social relations can facilitate information search and decision making for buyer. For seller, they can serve as information and contact source, and facilitate prospecting and approaching the potential buyer (Jaramillo & Marshall, 2004).

2.4.3 A NEW MODEL OF RELATIONSHIP INITIATION PROCESS

Service-Dominant Logic defines service as the application of competences for the benefit of another party (Lusch et al., 2012). All of Aibel's business from engineering studies to maintenance involves application of competence to create value and solutions for the clients. Industrial companies adopting service logic need to understand how they can initiate new relationships or transform current relationships when hardware is no longer the only value-creating factor. Providing services require a change in relationship-based business models (Edvardsson et al., 2008).

Following a review of business relationship literature, covering among others Hedaa (1996), Edvardsson et al, (2008), conclude:

- The initiation process is seen as a phase in life-cycle models, and does not receive much attention.
- The phases or stages in the process description are neatly separated.
- There is little focus on the time dimension, or why relationships move from one stage/phase to another, especially in the relationship initiation phase.

Edvardsson et al. (2008) builds a conceptualization of the relationship initiation process, around two realizations from empirical studies: (1) There are distinct, stable positions, *statuses*, in the relationship initiation process that have different closeness to a business agreement; (2) There is no automation in the progress between these statuses in terms of speed, order or outcome.

This model also captures the dynamics in the process by referring to different forces that changes the status. Forces that speed up the process are labeled *converters*, while those that slow down the process are labeled *inhibitors*.

Statuses

An *unrecognized* status is defined as the situation when the parties do not know each other, or the buyer does not recognize the seller. In a *recognized* status there is awareness, one- or two-sided. It is typically the seller that is the active part in recognizing the buyer, although it is not uncommon for buyers to look for sellers (Edvardsson et al., 2008). A *considered* status occurs when representatives from both parties discuss objectives and scope of an assignment. Meeting activity to exchange information and build trust is more systematic than in the two aforementioned statuses. The transition from a recognized status to a considered status does not happen quickly, and does not rely on certain marketing effort. Rather, it is based on long-term experiences and demonstration of suitability (Edvardsson et al., 2008). Finally a business agreement marks the transition to a business relationship. Typically this process will include the signing of a contract of varying length and volume (Edvardsson et al., 2008). The initiation process may start, and stop, in different statuses, be on hold for indefinite periods of time, and proceeds only when certain converters are present.

Converters and Inhibitors

Converters and inhibitors are forces that cause a change in status and each one work in both directions in the model (Edvardsson et al., 2008). Converters drive the process forwards or backwards, while inhibitors prevent the process from changing status (Edvardsson et al., 2008). An inhibitor might prevent or slow down a status change both to the right and to the left. Likewise, a converter might speed up a change both to the right and to the left. The paper identifies three factors, which can act as converters, as the seller's ability to handle the *time* factor, *trust* in seller representatives and company, and the *service offering*. The time factor includes timetable, and timing of activities and initiation. The trust factor functions as insurance in case of unexpected events, difficulties and changes. The service offering consists of competence and capabilities and the ability and motivation to adapt these qualities to the buyer's requirements. These are just examples, and not the only factors that can act as converters. Edvardsson et al. (2008), concludes that the price, which would be easily evaluated in a tender process, is not of great importance as long as it is reasonable. The real price is counted in terms of personnel allocated to buying organization, and in terms of risk of failure.

Three inhibiting factors are recognized as: *bonds*, *risk*, and *image*. Bonds are bonds between the seller and the buyer that result in preferred sellers and stability. Risk is the buyer's estimation of difficulties in the cooperation process and negative outcomes. Image is the buyer's overall perception of the seller.

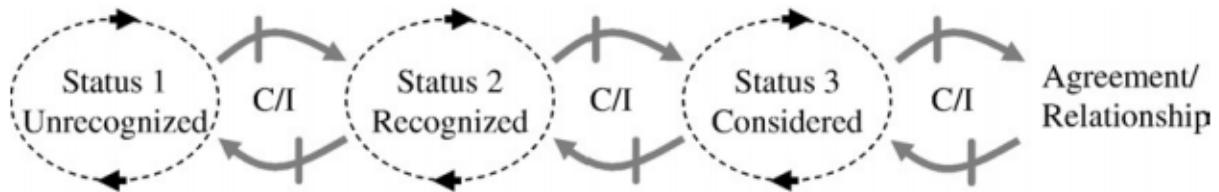


Figure 2 - A new model of the relationship initiation process for business-to-business professional services (Edvardsson et al., 2008)

2.4.4 KEY FEATURES AND PROCESSES OF INITIATION

Based on literature review, Aarikka-Stenroos (2008) identifies features that cause the initiation phase to be “a blurred launch phase of relationship that involves various actors, different episodes and communication between various individuals and firms” (pp. 12). Without providing a clear definition of the term “relationship beginning” or narrowing it down in terms of time or activities, Holmen et al. (2005) presents 11 types of relationship beginnings based on an inductive case analysis:

1. counterpart initiates first contact with focal firm
2. focal firm initiates first contact with counterpart
3. a direct counterpart of the focal firm initiates contact between focal firm and one of its other counterparts
4. a former employee of focal firm initiates contact between focal firm and present employer/own start-up firm
5. a former employee of partner initiates contact between focal firm and present employer/own start-up firm
6. the focal firm meets partner via public trade show, fair, trade meeting etc.
7. the focal firm meets the counterpart at private, invited meeting or seminar
8. contact is established via a (public) request for tenders
9. presence in local cluster
10. serendipity

11. an indirect counterpart of the focal firm initiates contact between the focal firm and one of its other counterparts

Based on this analysis Holmen et al. (2005) present two dimensions showing a firms relationship initiation profile. The *active vs. reactive* dimension reflects whether the focal firm initiates the interaction process or not (Holmen et al., 2005). Building on this, Aarikka-Stenroos (2008) presents *activity and the initiator* as the first of three key features in initiation. The focal firm can be active or reactive in initiation (Holmen et al., 2005), and activeness may realize through organizational or personal initiation activities (Aarikka-Stenroos, 2008). In addition, initial contact can be made through introduction by a trusted third-party (Batonda & Perry, 2003).

The next dimension, *intentionality vs. unintentionality*, tells whether initiation is a result of intentional, and active selling efforts, or happens by accident. Following the findings of Edvardsson et al. (2008), the third feature, *speed and progress*, states that the speed and progression of the process are unpredictable and vague (Aarikka-Stenroos, 2008). Initiation does not only progress, instead, the process can flow backwards or stop at any status (Edvardsson et al., 2008)

Instead of a linear stage process, Aarikka-Stenroos (2008) sees initiation as a process consisting of a range of sub-processes, some following each other linearly, other constant, non-linear or sporadic:

The need or motivation needs to be recognized and defined

This is the launch of the relationship initiation process.

Identification of matching, attractive partner

Actors seek to create awareness and to be aware of potential partners. Attraction can arise from perceived similarity of values, social relations, complementarity, learning, and reference values. Both parties evaluate matching through a scanning of goals, attractiveness and performance of each other.

Access

In addition to awareness and attraction, access needs to be created. Both seller and buyer might need access, and this sub process can be facilitated by external parties.

Constant information gathering and providing, performance scanning and performance verification

Parties seek and gather information. Seller prospects potential customers. Buyers monitors potential suppliers, evaluates their offerings, and employ different decision criteria. Risk is reduced through performance scanning, trust creation and information search.

Forming and defining the first focal transaction

The buyer defines a desired solution/offering, and communicates short and long terms needs. Bargaining and negotiation between parties forms the conditions and attempts to discover the best solution to the buyer's problem.

Building conditions to operate (trust creation, information sharing, getting acquainted, gaining mutual understanding)

Gaining mutual understanding through mutual communication and information sharing shows the buyer that the seller listens to and understands the seller. Trials, social relations and other interactions reduce the distance.

Planning and forming the future of potential relationship (expectations, evaluation, trust creation, matching, social compatibility)

Parties forecast a common future and formulate strategic dimensions of their emerging relationship. Organizational strategic matching and common goals, and personal compatibility are in great roles in this process.

2.5 SUMMARY OF THE LITERATURE REVIEW

In this literature review of relationship development we see that the stages models that were proposed early on have received criticism for their assumptions and international applicability. This led to further research proposing that relationships develop in unpredictable states. Batonda & Perry (2003) built a six states model adding a dormant state to a synthesized model of various popular stages models. Since then, researchers have utilized the six states model and the implications of Batonda & Perry's research (2003) to investigate different processes and applications. In my case study I will utilize the six states model of Batonda & Perry (2003) on qualitative data gathered about Aibel's projects, in effort to understand how their relationships develop.

Researchers have investigated the initiation processes with different approaches, among them the view of initiation as a part of relationship development. However, studies on relationship initiation as a separate subject has been lacking before Holmen et al. (2005), followed by Aarikka-Stenroos & Halinen (2007), Edvardsson et al. (2008). Aarikka-Stenroos (2008) built upon research both from Holmen et al. (2005) and Edvardsson et al. (2008). Edvardsson et al. (2008) presents a model that conceptualizes the dynamics of relationship initiation process in service-dominant settings. It is highly interesting to further investigate this model since oil and gas service companies are highly reliant on selling services and co-creation of offerings. Aarikka-Stenroos' key features (2011), partly based on Holmen et al. (2005) and Edvardsson et al. (2008) gives further insight into the dynamics of the relationship initiation processes. Based on this literature review, the Edvardsson et al. (2008) model was expanded and the active vs. reactive, and intentionality vs. unintentionality dimensions were incorporated.

2.6 NEW MODEL OF RELATIONSHIP INITIATION

The Edvardsson et al. (2008) model sees the statuses from the buyer's perspective, while this research will study the relationship initiation from the seller's perspective. This model will therefore shift the perspective to the seller, and describes the seller's statuses in the initiation process. The validity of the model's remaining functions is inspected. The purpose of the project, to investigate relationship development and initiation processes, will be pursued through a case study of the seller's perspective, and this is the reasoning for modifying the model. The new model keeps the idea of statuses, and inhibitors and contributors, while incorporating two more of key features presented in Aarikka-Stenroos, activity, and intentionality vs. unintentionality. This is in an effort to serve the purpose of the project, and further aid the defining and understanding of the initiation processes. The new model presents an extended road-map to the forward moving initiation, while maintaining the idea that initiation can start from any three statuses, develop backwards and stop in any status. This will make it easier to place the initiation sub processes as presented in Aarikka-Stenroos, and also to identify inhibitors and contributors to the specific transitions between statuses.

The new model, shown in figure 3, consists of five (six, including agreement) statuses, denoted 1-5, and 12 ways of progressing (forward) through the statuses, denoted a-l:

1. **Unrecognized:** In this status, the seller is not aware of the buyer. The buyer may or may not be aware of the seller.
2. **Buyer recognized:** In this status, the seller is aware of the buyer, but in this status the seller does not know whether it is known to buyer or not. The buyer may be aware of the seller, but in that case the

seller is not aware of this. There has not been any contact, of any kind, between the parties. The seller might, for instance, have discovered the buyer's website through an internet search.

3. **Mutual recognition:** In this status, the seller is aware of the buyer, and knows that the buyer is aware of them.

4. **Buyer considered:** In this status, the seller is considering a project with the buyer. The buyer may be considering the seller for the same project, but this is in that case unknown to the seller. Seller might not have informed buyer of their interest, for strategic or other reasons, but might at the same time do active work in preparation for a relationship.

5. **Mutual consideration:** Both seller and buyer are considering each other for a project, and the parties are in contact regarding this project. From here, processes towards an agreement can be instigated.

The statuses *buyer considered* and *mutual consideration* differs from the *considered* status in the model in Edvardsson et al. (2008). The considered status occurs when the objectives and scope of an assignment is co-developed (Edvardsson et al., 2008). In this model the considered statuses occur when a project as defined in section 1.2 is already developed. The reason for this is to adapt the model to take into account the activeness and intentionality dimensions. The model aims to describe a status where the seller is considering a specific project without cooperating with the buyer on this project. In this case the project as defined in section (), has had to be already developed by the buyer. The model is also adapted to describe the initiation of a project relationship in the petroleum business, where potential projects are the basis for almost all inter-organizational interaction. In order to clarify the distinction between statuses 2 and 3, and 3 and 4, I have defined statuses 3 and 4 to concern consideration of a project as the term project is defined. The agreement status will for the sake of this research be defined by a project contract.

Following Aarikka-Stenroos (2008), two key features of the different possible ways of transitioning toward a business agreement in the model is denoted by *active* or *reactive*, and *intentional* or *unintentional*. A transition is defined as **active** if the seller is an active part in initiating the transition, and reactive otherwise. The transition is defined as **intentional** if the seller enters the transition process with the intention of obtaining the situation that describes the next status, and unintentional otherwise.

The 12 ways of progressing (forward) through the statuses, denoted a-l:

a) The seller discovers the buyer in an **intentional** effort. The seller is looking for a potential buyer and finds one. The seller is the **active** party. This transition can be the first part of beginning number 8 in Holmen et al. (2008).

- b) The seller discovers the buyer **unintentionally**. The buyer is not discovered in an effort where the goal was to find a potential buyer. The seller is the **active** party.
- c) The seller contacts the buyer. The seller is the **active** party and the process leading to a mutual recognition is **intentional**. This transition corresponds to beginning number 2 in Holmen et al. (2005).
- d) The buyer contacts the seller. The seller is a **reactive** party and the process leading to a mutual recognition is **unintentional**. This transition corresponds to beginning number 1, 4 and 5 in Holmen et al. (2005).
- e) The buyer contacts the seller, and in the process makes themselves known to the seller. The seller is a **reactive** party and the process leading to a mutual recognition at the time it does is **unintentional**. This transition corresponds to beginning number 1, 4 and 5 in Holmen et al. (2005).
- f) The seller and buyer are made aware of each other at the same time, either through some form of direct contact or through a third party. The seller can be an **active** or **reactive** party and the process is **unintentional**. This transition corresponds to either beginning number 3, 6, 7, 10 or 11 in Holmen et al. (2005).
- g) The seller decides to consider a specific project with the buyer. The seller is the **active** party and the process is **intentional**.
- h) The seller signals their interest in the project. The seller is the **active** party and the process is **intentional**.
- i) The buyer signals their interest in engaging the seller in the project. The seller is a **reactive** party and the process is **unintentional**.
- j) The buyer signals their interest in engaging the seller in a project not previously considered by the seller. The seller is a **reactive** party to the buyer's activity. The process is **unintentional** because the buyer's signal completes the transition, however long the seller chooses to consider the project.
- k) The seller and the buyer develop a project together. The seller is an **active** party and the process is **unintentional**. The project is not pre-intended, but a result of the process.
- l) Processes potentially leading to an agreement, such as tenders, clarifications and negotiations. This process is **intentional** and the seller is an **active** or **reactive** part.

In addition to the ways the seller can transition forwards through the statuses in the model, the seller can also transition backwards. An example of this might be from a mutual consideration to a buyer considered status. The buyer might have stopped considering the seller, temporarily or permanently, with or without informing the seller. The seller might then either still work for an agreement or deem the project lost and transition further back to a mutual recognition status. The seller might in another example transition

directly from a mutual consideration to a mutual recognition status by being the part that draws out of discussions. In some of these backwards transitions it might be interesting to investigate whether the seller is an active and intentional part, but that is beyond the scope of what this research wants to investigate. The backwards arrows are therefore only included to signify that there indeed are backwards transitions building on the model in Edvardsson et al. (2008).

The converters and inhibitors are the forces causing both forward and backward transitions, and are thus present at every forward and backward transition in the model. It is, however, reasonable to suggest that different converters and inhibitors will work with different effect for the different forward transitions. The transition denoted *a* might for example be driven by the seller's network, in which to actively ask for recommendations, or the buyer's visibility online. The transition denoted *e* might on the other hand be driven by the seller's visibility online, or reputation among previous buyers. The transition denoted *g* might be driven by the seller's ability to monitor buyer's activity or future prospects, either through information search, studies or the ability to question the buyer directly. Whereas the transition denoted *k* might be determined by the seller's service offering in terms of what they are willing to invest in meeting activity and understanding the buyer's problems.

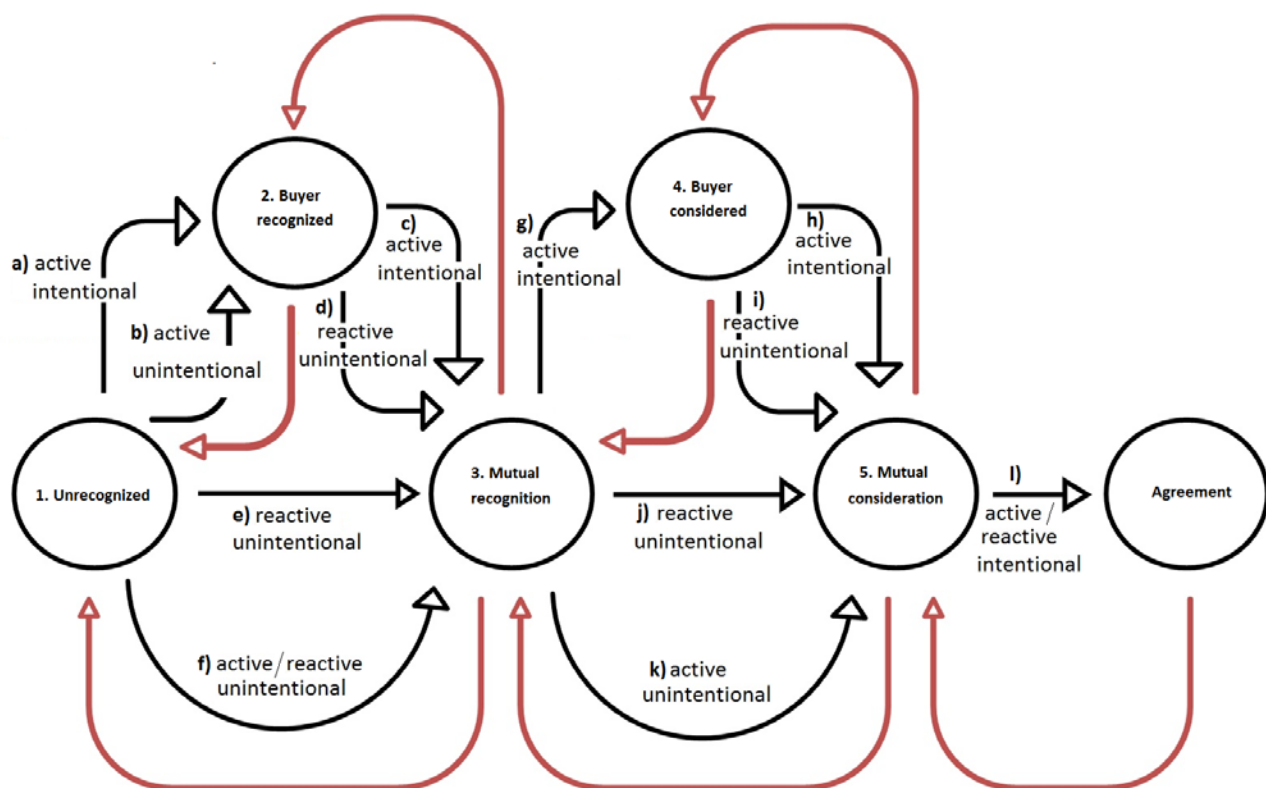


Figure 3 - New model of relationship initiation showing statuses, forward and backward transitions, activeness and intentionality

3. METHODOLOGY

The research conducted in this project involved a literature review and based on this, development of a theoretical framework. A case study was performed on two current projects between a Norwegian service company and two separate petroleum companies; One Norwegian and one American. The theoretical framework was utilized to analyze the data gathered from interviews of the service company's project managers.

3.1 CASE STUDY

In Thomas (2011, pp. 513) a case study is defined as:

“Case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods.”

This research will utilize a case study of the Norwegian oil and gas service company Aibel, and more specifically interviews of management personnel working in two separate current, major projects for Aibel. The research will aim to answer the research questions by investigating Aibel's interactions with two separate clients in two separate projects.

As described in section 2, the concept of relationships can be studied from multiple perspectives and encompasses socio-psychological phenomena. This research aims to investigate processes defined by the interactions between specific companies, and as such interactions between the groups of people that make up these companies. A case study approach that “answer questions about particular, localized occurrences or contexts and the perspectives of a participant group toward events, beliefs, or practices” (Yin, 2009) will therefore be a suitable approach. The research questions are also framed as how and why questions, and focuses on contemporary events and can therefore be answered by a case study (Yin, 2009).

3.1.1 WHY INTERVIEWS?

Interviewing is a basic mode of inquiry, and recounting narratives of experience makes sense of people's experiences (Seidman, 2013). Storytelling gives access to the most complicated social and educational issues, because these are abstractions of people's concrete experiences (Seidman, 2013). Interviewing can therefore serve to uncover the experiences of people involved in the interactions and exchanges that define a business relationship. It can also help the interviewees make sense of their experiences, which in turn, recorded by the interviewer, will be of great value to the research. Interviews will also uncover

information that is not written or publicized, providing a stronger basis for analysis. According to Barriball & While (1994), face to face contact with researcher, can motivate informants who would otherwise not bother with a questionnaire.

3.2 SELECTION OF CASE COMPANY

In order to obtain access to data that could aid my research, and information that could aid my understanding of the oil and gas service industry, I contacted several service companies during the summer of 2013. Aibel showed interest in my research and we agreed to cooperate on the research. Aibel is one of the two biggest oil and gas service companies in Norway, along with Aker Solutions, and competes for the major EPCIC contracts. Aibel, thus, corresponds well with the background and the purpose of the research. I chose to examine two current major projects that Aibel have with two different oil and gas production companies, to make sure the data would be contemporary and relevant to the background of the research. The projects that were picked was an EPCIC project called TPC, where the client is Statoil Operations, and a framework contract for multiple maintenance and modification projects, called GEMC, where the client is ConocoPhillips. Statoil is a Norwegian company, while ConocoPhillips is American. This means that this research will investigate and compare both national and international relationships. These projects are also different in form, demanding different interactions and exchanges. TPC is a big project comprising three specific offshore modules, while GEMC is a framework contract comprising several modification and maintenance projects. The TPC project and the GEMC are typical contracts for Aibel.

The theoretical framework was developed in an iterative process where the result and analysis of the case study caused changes to the models utilized, and the changes in the models caused a revision of the analysis. The models were adapted to facilitate the choice of projects as the frame of the relationships. The iterative process followed the systematic combining process developed in Dubois & Gadde (2002). The goal was to match the development of the theoretical framework with the reality uncovered in the case study and to improve the ability of the models to answer the research questions. At the same time, the models have a firm basis in existing research, and remain general enough to serve further research on similar business relationships, e.g. between foreign service companies and petroleum companies on the Norwegian continental shelf. The literature review served to create a theoretical foundation, ensuring a theoretical validity with the correct use of terms, concepts and models (Dalen, 2004).

The research questions concerns the relationship between Aibel and the client in the respective case projects. Aibel is chosen as the focal firm for the research and therefore provides the perspective to view, and gather information about, the projects. According to Halinen & Törnroos (2005) the outer limits of a

network is based on the key informant's perceptions and understandings. This means that the network of individual actors involved in the projects, is defined by the informants chosen for each project.

3.3 CHOICE OF INTERVIEWEES

The aim was to interview project representatives from Aibel that had information about as many processes in the project as possible, and that hopefully had been a part of the processes before the contracts were agreed. This would give me a chance to collect data that could best help answer the research questions. Therefore, I chose to interview the project manager of the TPC project, and the contract director of the GEMC project. It was a good chance they had been a part of the earlier processes, and with the definition of their roles in the projects they would have an overview of the different activities in the projects.

3.4 THE INTERVIEWS

In order to ensure the reliability of the analysis of the interviews, the informants, the interview situation and process, and the analytical tools are described in detail in this project (Dalen, 2004).

Both interviews followed a semi-structured format, where an interview guide was prepared. The development of the interview guide followed "funnel-principle" discussed in Dalen (2004). The initial questions were broad and opened for reflections on a broad range of the research topics. Later questions narrowed down to seek more detailed information about specific central topics. The questions were designed to be open-ended, unambiguous and non-leading to ensure precise and full answers, strengthening the validity (Dalen, 2004). Relationship initiation and development processes involve individual relationships and opinions, and semi-structured interviews "are well suited for the exploration of the perceptions and opinions of respondents regarding complex and sometimes sensitive issues and enable probing for more information and clarification of answer" (Barriball & While, 1994, pp. 330). The possibility to clarify answers and probe for additional information strengthen the validity of the research (Kvale, 1996). The questions in the interview guide were linked with the research questions.

Effort was made to accommodate the interviewees' convenience in terms of when and where the interviews were held. Both interviews were conducted at the interviewees' work place during a period of their choice. Both interviews were conducted in a face to face setting. Before the interviews, the interviewees' were briefed about the purpose of the interview, to establish the motivation for the interviews and the interviewees' trust in the motives (Kvale, 1996). The interviews started with questions about the interviewee's role in Aibel and the project, to allow them to talk about themselves. Both

interviewees answered all the questions I asked and looked comfortable in the situation and with spending the time the interviews took. I did not intentionally interrupt the interviewees and waited for a break to ask follow-up questions. This resulted in a number of digressions, as to the intension of the questions, but most of the information stayed on topic. The behavior of the interviewees showed characteristics of them being good respondents (Barriball & While, 1994). I and the interviewee were the only ones present during both interviews, and both interviews went uninterrupted. The interviews were rounded off by asking the interviewees' whether they had anything they wanted to talk about. This gave the interviewees' an opportunity to deal with potential issues they had been worried about or thinking about during the interviews (Dalen, 2004).

For both interviews I had my laptop computer open and utilized the laptop's integrated microphone and a free recording software called Audacity to record the interviews. I informed both interviewees before I began the interview that I would make a recording. According to Barriball & While (1994), audio taping will help the validation of accuracy and completeness of the information collected, and reduces the potential of interviewer error. During the interviews I ensured both interviewees that they would have an opportunity to proof-read the information that was included in this project paper before finalization. Both interviewees told me that they would answer follow-up questions via email. For both interviews I wore business casual attire. A good self-presentation of an interviewer, in terms of dress, etiquette and manner, can help overcome potential socio-economic, education and age biases (Barriball & While, 1994).

The first interview was held with Bruce McPherson. Bruce McPherson is the project manager of the TPC project, and he is working in Aibel's Asker office. I met McPherson at the Asker office whereupon he chose a meeting room for the interview. McPherson spoke Norwegian and we talked in Norwegian before and after the interview. The interview guide, however, was in English and the interview was conducted in English. The reason for this was my assumption that he did not speak fluent Norwegian, since the email correspondence I initiated in English had followed in English. The interview lasted 1 hour and 55 minutes including a 10 minute break where McPherson went to get food.

The second interview was held with Arild Refsland. Arild Refsland is the project director of the GEMC project with ConocoPhillips, and he is working in Aibel's Forus office. The interview guide was in Norwegian, and had some additional questions that had worked well during the previous interview. I contacted Refsland via email and we decided to conduct the interview over Aibel's video conference utilities. I was situated in a video conference room in Aibel's Asker office, and Refsland was situated in his own office in Aibel's Forus office. The interview lasted 59 minutes. Refsland, unlike McPherson, specifically asked to review any quotation from the interview before finalization of the paper. After the interview, I posed a

follow-up question to Refsland via email, concerning Aibel's involvement in the development of the GEMC project before it was tendered.

3.5 ANALYSIS OF METHODOLOGY

The literature review revealed that the six states model developed in Batonda & Perry (2003) was a good choice of model to aid the analysis of Aibel's project relationships. After the interviews were conducted, and the analysis of the project relationships began, it became clear that parts of the model did not aid this analysis. The six states model seemed more fit to describe a buyer-seller relationship with ongoing transactions outside the frame of a project, than a project relationship. Parts of the model were therefore revised during the analysis and developed to aid the understanding of the development of a project relationship. Activities were exempted and included based on the nature of the relationship and with a basis in the analysis of the activities in the six different stages models.

The model of initiation developed in Edvardsson et al. (2008) was chosen as the basis to develop a new model fitting the perspective of the seller. Further literature review revealed the significance of the research in Aarikka-Stenroos (2008), building on Holmen et al. (2005). In an effort to base the research in this project on both contributions, the model was expanded and developed to include new dimensions.

3.6 REFLECTIONS ON METHODOLOGY

Researcher's role

The research was performed by only one researcher. The researcher has no special interest in any of the companies included in the research. Dalen (2004) points to the benefits of cooperating with, or including other researchers in some processes of the research, to control the subjectivity of the findings. In this regard, the subjectivity can be weakened by the absence of other researchers.

Selection of case companies and case projects

Acquiring data from only one case company limits the basis to analyze how project relationships between service companies in general and petroleum companies develop and are initiated. Acquiring data from only two project relationships, likewise, limits the basis of analysis. Both of the chosen case projects have not yet been terminated, and both are projects that Aibel were awarded. Consequently the selection does not represent project relationships that show follow these developments. The analytical generalizability is weakened when the findings from the research have less usability in other situations (Kvale, 1996).

Strengthening the generalizability is the variety the two chosen projects represent, as discussed in section 3.2.

Selection of informants

This research gathered data about the project relationships from only one informant per project. Seidler (1974) shows a decreasing reliability pattern with a decreasing number of informants, and suggests a necessity of at least five informants per unit of analysis. This is especially suggested if the questions can be bias-producing. Dalen (2004) points to elite bias as a possible result of relying heavily on few informants who are believed to possess valuable information to the research. The manager of the TPC project, who was chosen as the informant for that project, was only partly involved in the initiation phase. The manager of the GEMC project, who was chosen as the informant for that project, was not directly involved in the initiation phase, and only took his current position in the project 17 months after the signing of the contract. This can have affected the accuracy and comprehensiveness of the information the informants could offer about the early phases of the project relationships. The role of the informants in the projects and the interview situations discussed in sections 3.3 and 3.4, on the other hand, contributed to a improved reliability.

Maturation

While the projects that were selected were ongoing when the interviews were conducted, some of the questions and data gathered are concerning events that took place up to several years ago. According to Campbell & Stanley (1963), processes operating within a respondent as a function of the passage of time per se, are threats to the internal validity of a study. Examples of one of these functions can be the forgetting of information, or the retrospective bias, where informants remember past events in more favorable terms (Seidler, 1974).

Translation of interview

The interview concerning the GEMC project was conducted and transcribed in Norwegian, and the data included in this project from that interview has therefore been translated. The chance of information getting lost or distorted in the translation might have affected the analysis of this data.

Audio recording

The interviews were audio recorded to strengthen the descriptive reliability of the data collected (Maxwell, 1992). The fact that the interviews were only transcribed by one person, might, however, have affected this

reliability negatively (Kvale, 1996). Noise in the rooms the interviews were conducted affected the quality of the audio recordings. This rendered a small amount of the interviews inaudible in transcription, and these parts of the interviews were consequently not analyzed. The audio recordings, as discussed in section 3.4 still contribute greatly to the reliability of the data gathered.

In summary, the research could have benefitted from involvement of more researchers, a more diverse selection of projects and informants. However, the selection serves the purpose of the research well, and provide for the answering of the research questions. The quality of the audio recording could also have been improved, but is hard to control. The maturation and translation is a necessary, but not highly significant, weakness.

4. CASE DESCRIPTIONS

In this section the case projects will be presented based on the data from the interviews.

4.1 TPC PROJECT

In this project, Aibel is delivering three new modules, M11, M12 and M13, to a platform owned by Statoil called Troll A. The project is owned by Statoil Operations, who have engaged Statoil Projects who manage the work. The project is called TPC and is a continuation of a previous, similar, project called TPK. Both projects seek to adjust the platform to accommodate drop in reservoir pressure. Aibel has previously done a lot of work on the Troll A platform and wanted to maintain their position. They knew the project was going to be big, and that the knowledge and experience they would get from the project would give them an edge in the competition for the further projects coming. McPherson's noted that Aibel had been working with Statoil for years and that they currently, and in the past have had several projects with them.

The informant's role

Bruce McPherson is the project manager. He is responsible for mobilizing the project, ensuring that Aibel has all the right resources in the project, that everyone understands the execution strategy. He is also responsible for the Health, Safety and Environment (HSE), that the quality is in accordance with the contract, and that the schedule for the project and financial goals for Aibel are met. This is the first Statoil project he has worked on for "some time" and the whole Statoil team is new to him.

The initiation phase

Aibel, in the position of being one of the two biggest companies of their kind in Norway, have meetings with Statoil, where Statoil tells them about their portfolio. It is in Statoil's interest that Aibel knows about their operations, in order for Aibel to see how they can plan to support Statoil. Aibel followed the TPC project from the very early stages. They were involved in the screening studies. After the screening studies, Aibel cooperated with Statoil on what is called the FEED for the project. The FEED is the front end engineering design, and consists of 50 to 100 thousand hours where the preliminary work is done, which makes the basis for an inquiry. This FEED starts normally at least a year and a half in advance of the award of an Engineering, Procurement and Construction (EPC) contract. The FEED was done over about 12 months, before Statoil sent out an inquiry to Aibel and Aker Solutions. Because of Aibel's previous work with Statoil and their close relationship Aibel was already pre-qualified by Statoil, which normally would be a process before the inquiry. Likewise, Statoil is one of Aibel's preferred clients and Statoil has treated Aibel fairly in other projects.

Bruce McPherson did some work on the tender, but as he was tender manager for a different project at the time, he came fully into the process after the tender was delivered, and Aibel were in a clarification process, which is a part of what is called the post-tender stage. In the post-tender stage only Statoil could initiate communication, as they are doing an assessment of the tender. Here, they did a technical and a commercial assessment; they looked at the schedule and the nomination of personnel, and gave a grade. Statoil had three clarification meetings with Aibel, which might have affected the grading. During the clarification process suggested personnel were rejected by Statoil, which meant that Aibel had to suggest new candidates. After this process, Aibel was chosen for the project and awarded the contract in September, 2011. ABB is another company that provides Statoil directly with AC/DC equipment. At the same time ABB are a supplier to Aibel in the project for, among other things, electrical equipment.

McPherson thinks Aibel were chosen over Aker Solutions because of their technical experience in the Asker office, because of their knowledge of the Troll A platform, including personnel that had been working for several years at the platform, and because of their experience from the TPK contract.

Happenings so far

Statoil wanted the project based in Europe, although Aibel has operations in Thailand. Aibel, therefore planned to do pre-fabrication on structural sections in Poland, the pre-fabrication of "a lot of" the piping in the United Kingdom, and assemble the modules in Haugesund. For the M12 module they decided to do all

of the work in Norway. Aibel awarded two polish subcontractors rather than one based on a concern about the polish market.

When the polish subcontractors were supposed to start the work around August, 2012, they were having problems getting the right resources. After three or four weeks of evaluation, Aibel decided to take some of the work out of Poland. One of the subcontractors, working on M13, who were too slow to mobilize personnel and weren't giving Aibel the right management attention had their contract terminated. The work on M13 was moved to the other polish subcontractor, while their work on M11, as well as the assembly and piping of M11 was moved to Thailand. The reason for this was that ABB wouldn't install the sensitive electrical equipment included in M13 outside of Europe. In addition to this, the remaining piping on M13 was moved to Haugesund because of high rates from the subcontractors in the UK. The changes were discussed with Statoil, who agreed with Aibel that the work in Poland was not satisfactory. Statoil were also concerned about the resources in Norway since there were a lot of projects going on. The M12 module was installed offshore in April, 2013, while the two other modules are still under construction.

The project contract

The contract for the project consists of a lump sum for preliminaries, and different rates: Rates for procurement services, planning services, cost services, and engineering services, and unit rates and man hour rates. All the engineering and the project services are reimbursable. There are monetary penalties for late deliveries on milestones. The preliminaries are paid over a period of time reflecting the progress of the work, while all the other costs are paid as incurred. Two amendments have been included in the contract. The first came as a result of a change in the design relating to a pedestal crane, from Statoil, late in the design, as well as a late delivery of information from ABB. The next one dealt with the execution change that came with the move of M11 to Thailand. The last amendment took six months to sign from the point where decisions were made to make the execution work. New incentives have been incorporated into these amendments. Examples of these are an incentive for meeting the delivery date on M11, and an incentive for completing the M13 module earlier than planned.

Inter-organizational activities

In the first three-four months of the project the teams from Aibel and Statoil had activities to develop the relationship. They had team-building where they got groups together and talked about common goals, the way they liked to work, and the way they were organized. These events included discussions, workshops and presentations, as well as dinners and drinks. Since the initial team-building, Aibel have had few, occasional, social activities with Statoil, like workshops followed by dinner.

Statoil's main project office is in Fornebu, while they have site offices in Asker, Haugesund and in Thailand. In the site offices they have their own personnel situated in Aibel's offices. This means that a lot of the communication between Aibel and Statoil is face-to-face. The fixed meetings comprises a project manager meeting every two weeks with all the key people from Statoil and Aibel involved in the project, and meetings every week at department level: commercial, planning, procurement, construction and engineering. In addition there are ad hoc meetings when something needs to be discussed. Informal, when for example the project manager goes to talk to the company representative from Statoil at the Asker office, or formal, when a meeting is called for over an IT system called Lotus Notes. Bruce McPherson reckons that the ad hoc meetings make up around 50 % of the total meeting activity. An integrated construction completion team (ICC) led by Statoil personnel, but consisting of mainly Aibel personnel looks after the execution of offshore modifications. Aibel had the impression that the ICC manager was not the right man for the job. He was "not competent", "too young", and "not a team player". He was not interested in having meetings, despite attempts from Statoil's company representative and Bruce McPherson to improve the cooperation and working relationship. After 16 months the ICC manager was replaced, and meeting activity became more driven by the ICC. Other than that change, the regular meeting activity has stayed the same since the beginning of the project.

Implications of the project

On a different project with Statoil called Gudrun, Aibel had planned to build parts of this project in Thailand. As Statoil had already seen that Aibel could build in Thailand, this made it easier to convince Statoil to move M11 to Thailand, when the problems arose in Poland. Statoil are now very interested to see if Aibel can deliver the quality in accordance with the specifications, and on schedule, from Thailand. This requires Aibel to have a team of 20 Norwegians working in Thailand, who understands Statoil's specifications and what their requirements are, to support the Thai construction team. Aibel believe that if they can deliver safetywise and qualitywise, they will be given a lot more opportunities to build in Thailand in the future. Anders Opedal, who is responsible for all the projects in Statoil, was in Thailand in September, 2013, and was impressed by the safety precautions and the way Aibel were working there. Bruce McPherson expects that if Aibel were to tender another project like Gudrun, Statoil would accept that the whole module was built in Thailand.

Aibel's CEO and executive vice presidents have regular meetings with four or five Statoil seniors, amongst them Anders Opedal, where they discuss different projects and Aibel receive feedback. Statoil employ a scoring system which is perceived as sometimes being subjective. The reasoning behind a score given can be the opinion of one man on a particular project. As a result of feedback Aibel got around May 2013 from one of the meetings, Aibel reorganized the top management in Aibel so that an executive vice president

was allocated to lifting the performance on maintenance contracts. This has led to an improved score, compared with other contractors.

4.2 GEMC PROJECT

The GEMC (Greater Ekofisk Modification Contract) contract is a framework agreement that comprises several small and medium-sized modification-projects for ConocoPhillips in the Ekofisk area. The contract is a continuation of the previous GEM contract signed in the summer of 2002. Aibel wanted to extend the contract because the commitment for five years with options for three more years would give a stability and predictability to Aibel's activity and revenue.

The informant's role

Arild Refsland has been the contract director of the GEMC project since December, 2012, when he took over for the previous contract director Johnny Kjos. His responsibility is to administer the project-portfolio. He is Aibel's representative towards the client, and he has the formal responsibility for the product that is delivered.

The initiation phase

The previous GEM contract was a contract where the options were extended. This meant that Aibel were prepared for a tender process for a new contract. Aibel knew ConocoPhillips' expectations for the new contract, and knew the timing for the tender process. Because of the previous engagements between Aibel and ConocoPhillips, the pre-qualification process was simplified. Aibel was not a part in developing the offer that ConocoPhillips made in inquiry. ConocoPhillips tendered the contract, and Aibel spent a standard of three months to prepare the tender. Aibel did an assessment of ConocoPhillips as a part of their tender strategy. After technical and commercial clarification of the tender, the tender process quickly developed to negotiations that lasted for around two months, which is relatively long. Arild Refsland thinks Aibel was the only real partner at this stage. A team from ConocoPhillips' headquarters in Houston flew in to Norway and tried to push the price down in negotiations. When Aibel's tender team felt it was economically indefensible to reduce the price, the team from Houston went straight to the top management in Aibel with an ultimatum on the price, and Aibel was pressed to sign the contract with parameters set by ConocoPhillips, in July, 2011. The reason why ConocoPhillips' headquarters got involved in the negotiation process, and subsequently the reason why this process lasted as long as it did, in Arild Refsland's view, is that they were concerned about the ability of ConocoPhillips' organization in Norway to give an objective assessment of the tender, after having worked so closely with Aibel on the previous contract.

The project contract and happenings so far

Arild Refsland replaced Johnny Kjos when there was dissatisfaction in ConocoPhillips with Aibel's work. There were accusations and an aggressive tone in the contract meeting at the time, and Refsland quickly focused on bringing out all difficult issues in the meetings and talking openly and honestly. This improved the situation, and revealed to ConocoPhillips that they had a bigger part of the responsibility for these issues than what they previously thought.

The previous GEM contract was a reimbursable contract with milestones and bonus agreements. In the new contract wanted changed the model to a reimbursable target contract, where Aibel is paid for the work done based on rates with zero profit, and where there is a target budget. If this target budget is not met, the costs or profits are split between the parts in the contract. The contract has not been modified since it was signed, and since ConocoPhillips' headquarters gave the parameters for the contract, ConocoPhillips' organization in Norway is cautious to exploit the different mechanisms in the contract or modify it. However, Aibel has seen that, with the development in the relationship since the contract was signed, they have been able to use the mechanisms in the contract to get extra compensation for use of consultants, certain rate adjustments, and begin discussions about milestones. In relation to a shutdown on the Ekofisk field, in the summer of 2013, an agreement was negotiated where all of the extra costs Aibel acquired due to the shutdown were reimbursed.

Inter-organizational activities

In the previous contract, on a management level, Aibel and ConocoPhillips already had a yearly Christmas Dinner, as a popular meeting point and arena to build relations in a different context. This activity and all other social activities were cancelled or suspended during the tender process. In the beginning of the work after the contract was signed there were team-building activities. There is little room in the framework of the contract for joint social activities, and, according to Refsland, both parts agree that there has been too few of these. Arild Refsland points to extended work meetings with dinner as a way of improving the "working climate". A "technical day" personnel from Aibel, the Norwegian organization of ConocoPhillips, and other project partners had at ConocoPhillips' headquarters is another example of an activity between the parts in the contract.

Formally, it is only the project leaders in the contract from ConocoPhillips that can instruct Aibel. In practice, Aibel are instructed from three parts of ConocoPhillips: The project management, the company organization at the installations on Ekofisk, and the engineering community in Tananger. ConocoPhillips' project managers are situated at Aibel's Forus office. Formally they have so-called instruction and

management rights, but in practice they are operating with design of Aibel's technical systems. This is a challenge to Aibel, as they talk directly to the engineers, and makes decisions without following the chain of command in the projects. At the installations on Ekofisk, Aibel are an integrated part of the company organization and relates to ConocoPhillips' as a part of this hierarchy. The engineering community is related to as with a supplier of a product. Aibel have 35 people leased to ConocoPhillips, conducting most of their research. These people have no contractual responsibilities or rights, but provide Aibel with a lot of the client's knowledge.

There are formal contractual meetings every month with client and subcontractors with a contractual setting. There is a monthly operations meeting where the status on the operations are presented, but where the agenda is unclear. There are informal and obligatory meetings with the company organizations at the platforms and the engineering community in Aibel's operations center. In addition there are communications with a steering committee consisting of the contract representatives and top management in Aibel and ConocoPhillips. The communication structure is partly a continuation of the structure in the previous contract, and partly instructed by Aibel's current steering system. A majority of ad hoc meetings does not involve Arild Refsland. Although Refsland does not know anyone from ConocoPhillips personally, there are several instances of personal relationships between individuals on both sides of the contract, and personnel having previously worked with the opposite part on both sides. Refsland describes this as an important factor that contributed to openness between the parts to benefit from each other, also in processes before the contract was signed.

Implications of the project

One of the biggest issues that Aibel are facing today is to manage the transition from the previous contract to the new. While responsibilities have changed, Aibel's and ConocoPhillips' organization behavior is based on decisions made, and a culture instilled in the previous contract. This was partly a consequence of a prolongation of the majority of personnel from the previous contract. Another challenge lies in the complexity of the relationships with other contractors at the Ekofisk area. Aibel works closely with other contractors and they deliver both as a cooperating partner and a subcontractor at the same time. The clarification of responsibilities is not always clear, and it gives ConocoPhillips a chance to distribute the risk by assigning responsibilities to Aibel where they have problems with a different contractor.

5. ANALYSIS

In this section the framework developed in the literature review will be applied to the empirical results gathered in the interview process.

5.1 DEVELOPMENT OF THE PROJECT RELATIONSHIPS

This section will answer research question 1, by applying the adapted six states model presented in section 2.3.4 to the results presented in section 4. The different states the project relationships have gone through and at what points will be identified.

5.1.1 TPC PROJECT

State 1:

Aibel has ongoing meeting activity with Statoil concerning a project portfolio rather than this specific project. Since the TPK and TPC are efforts to adjust to a foreseeable drop in reservoir pressure, Aibel could have recognized the purpose and need of the TPC project even before the screening studies. Aibel knew that the project would be big and that it would provide valuable knowledge and experience. These are examples of Aibel recognizing purpose and need to enter a project relationship which is an activity described in state1 in the six states model. As Statoil wanted the project based in Europe, some of the Asian competitors were ruled out before the work related to the project began. A match between the need for a European supplier and the two Norwegian suppliers Aibel and Aker Solutions was found. This can be recognized as both looking for a match between capability of suppliers and the needs they have in the project, and a search for suppliers. These are activities present in State 1 in the model. Because of the close relationship between Aibel and Statoil outside of the project, Aibel was automatically pre-qualified. In a pre-qualification, the buyer does a preliminary assessment of the seller's competence in relation to the project, and is as such an instance of the activity of cross-checking partner's competence in state 1. In the screening and FEED processes, there was close cooperation between the parties, and resources committed from each party to a potential project relationship. However, before the project got the green light from the top management in Statoil and the inquiry was made; neither of the parties were committed, in form of an agreement, to the project relationship. This is also a factor that describes state 1.

From the description of the project in section 4, a searching processes state established before screening studies begun is recognized. Statoil did another assessment of Aibel's capability before some of the work was moved to Thailand, where they became concerned about the resources Aibel had in Norway. This process involved an analysis of the Norwegian resources and Aibel's operations in Thailand compared with

their project objectives. This is therefore an example of finding more information about Aibel, and looking for a match in capability and need that is described in State 1. However, there is no instance of the parts relieving their commitment to the project once the contract was signed. Neither is there known instances of either part searching for potential partners to replace the other party. State 1 is described with no commitment and searching activities. In light of this, the relationship seems to be in state 1 only until the contract is signed.

State 2:

The inquiry specifies the objectives and goals of the project, identifying the purpose. The tender presents the specifics of how Aibel will solve the problems. Statoil presented the purpose of the project in an inquiry, and Aibel likewise presented the opportunity they could offer Statoil through a tender. These are activities that describe state 2. In the post-tender phase, technical and commercial goals were clarified and tested. Statoil also tested compatibility of personnel and rejected a suggested candidate for one of the positions in the project during the clarification process. These activities, lasting from the inquiry, as well as the signing of the contract, can be mapped to the starting processes state. This suggests that the relationship was in state 2 during these activities. The initial contact regarding the project as defined was made earlier than the inquiry and the purpose and opportunity was to a certain extent clear to the parties before the inquiry was made. Making initial contact is also described as an activity in state 2. However, the absence of specification development and negotiation before the inquiry, at most, suggest a partly transition into state 2 before the inquiry.

State 3:

The team-building efforts between the parts the first three-four months served multiple purposes. One of the goals was to develop personal relationships through different work-related and social activities. At the same time plans, responsibilities and goals were presented and discussed. These activities are described in state 3, suggesting that the relationship was in this state in this time period. The social activities since this initial phase of the project have been few. The current formal meeting activity, apart from ICC was established in the beginning of the project, and Statoil established site offices, presumably, at the beginning of the project to integrate and accommodate communication and operations. These are efforts to adapt the inter-organization and members of this organization to the objectives of the work and, as such, inter-organizational and member adaptation. When the ICC manager was replaced, personal relationships had to be developed once more, and new activities were planned. The amendments in the contract also meant new inter-organizational planning by, for instance, involving the Thailand organization. In addition, they caused formalizations of discussions in the contract. These activities, recognized in state 3 in the model,

would suggest that the project relationship was in a development processes state in the early months after the signing of the contract, when amendments were signed and when the ICC manager was replaced.

State 4

Statoil reluctantly approved the replacement of operations to Thailand. They also replaced the ICC manager after 16 months, around January, 2013, and Aibel's top management was reorganized to lift the performance on, among other, the TCP project. Two amendments have been agreed some time during the project, after the contract was signed. This is an example of the two parties modifying the contract to resolve conflict in previous contract, and adapting to the other party, which are activities we recognize in state 4 in the model. The replacement of a candidate in the clarification process is an example of early adaptation of members, but does not seem to constitute a significant conflict, but rather a normal procedure. The project relationship involved activities suggesting that the parties have been engaged in maintenance processes, suggesting state 4, from the signing of the contract, while these activities have been more strongly present later in the project.

The TPC project relationship began in state 1. Before the inquiry we see a few activities described in state 2, suggesting a smooth transition into state 2. From the inquiry through to the signing of the contract, starting processes in state 2 is most prominent. After the contract was signed, development processes began suggesting a transition into state 3. At certain points during the project, several maintenance processes have also been needed, which would cause the relationship to enter and exit state 4 at these points. Figure 3 highlights the transitions between states that are recognized in the TPC project so far. The numbers in figure 4, show the sequence of transitions. The number of transitions between state 3 and 4 are unclear since the transitions between these states are indistinct

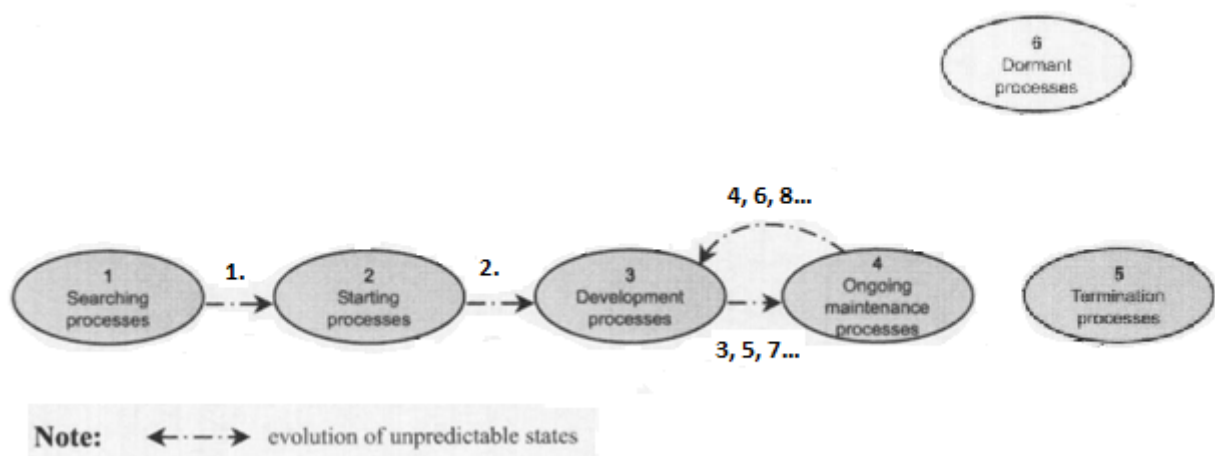


Figure 4 - Transitions between states in the TPC project

5.1.2 GEMC PROJECT

State 1:

Aibel knew that there would be a need for a new contract once their extended options were to expire. They also knew that a new contract, if awarded to them, would bring a stability and predictability to their activity and revenue. ConocoPhillips likewise were aware of the length of the previous contract and knew the need to form a new contract relationship to ensure the operations at the Ekofisk field. The purpose and need for a project relationship was therefore recognized during the previous contract, which is an activity describing state 1. Before tendering the contract, ConocoPhillips also did a simplified pre-qualification of Aibel, which is an example of finding information, cross-checking partner, and matching need and capability. These are all activities indicating state 1. Before the contract was signed there no commitment to the project relationship from either of the parties. The searching processes status therefore can be recognized before the tendering of a new contract, earlier in the previous contract going towards the signing of the contract.

State 2:

ConocoPhillips presented the purpose and opportunity of the project to Aibel by tendering the contract, and Aibel submitted a tender, presenting the opportunity this tender offered to ConocoPhillips. This activity is described in the model and indicates state 2. Since Aibel was not a part of developing the content of the proposal ConocoPhillips issued, they could not have been certain about exactly what the opportunity for them in the project relationship was before the offer was presented. During the tender process, Aibel did an assessment of ConocoPhillips. After the tender was submitted, a technical and commercial clarification was done testing the goals and compatibility of the offer. A long process of negotiations followed, testing goals and compatibility further. These activities performed in cooperation are a central part of state 2. The case description therefore suggests a starting processes status beginning from the tendering of the contract.

State 3:

In the beginning of the work after the contract there were team-building activities. These are activities meant to create personal relationships and trust between partners and give an arena to inter-organizational planning of activities, responsibilities and relationships. This means that we can map these activities to state 3 in the six states model. The formal meeting activity is contractually decided, partly a continuation of previous contract. These are activities that points to a direct involvement in business discussions through regular contacts, and indicates therefore state 3. The social activities that could contribute to trust-building have decreased since the beginning of the project. ConocoPhillips' contractual organization has been integrated in Aibel's Forus office since the beginning of the project, and Aibel are integrated in the platform organizations. These are clear examples of resource commitment to

accommodate partner and integration of activities, which we recognize as a indicator of state 3. The clarification of responsibilities, as a development process, has been an ongoing activity from the start of the project, as these are not clear. One of the reasons for this is the difficult transition from the previous contract.

When Arild Refsland replaced Johnny Kjos, new personal relationships had to be developed. Extra compensation for use of consultants, rate adjustments and discussions about milestones are examples of an increased trust between the parties through inter-organizational adjustments. All of these occurrences indicate that the project relationship had periods where development processes, as described in state 3, were strongly resumed. State 3 seems to have been strongly present early in the project after the contract was signed. After this early period the relationship has continued to develop as a result of a continual need for clarification of responsibilities and during the latter mentioned occurrences.

State 4:

A conflict arose when ConocoPhillips headquarters worried that the tender team would not be able to assess Aibel objectively. This resulted in an increased commitment of resources by involving new parts of the organization in the negotiations. This activity indicates state 4. Aibel, in order to secure the contract, accepted disadvantageous parameters. In an attempt to adapt to the situation, when ConocoPhillips were dissatisfied with Aibel's work, Aibel replaced their contract director. This is an example of member adaption. The parts managed to improve the situation by communicating openly and honestly, which can be seen as an example of the parts resolving conflict through joint activity. The parts have also through the establishment of trust been able to deal with issues concerning compensation for use of consultants and rate adjustments. This is in part a result of development activities, indicating state 3, but the actual decisions can be seen as joint activities to resolve conflict. Joint negotiation activities were also performed to solve a conflict related to the shutdown in the summer of 2013. The contract situation still inhibits both parties in utilizing the contract to the extent they would like, and the challenges concerning unclear responsibilities are also still unresolved. The project relationship has involved maintenance activities both during the negotiation processes concerning the tender, and during certain conflicts or changes after the contract was signed.

In the GEMC project the first state in the six states model can be recognized in the previous GEM project. Going into the tender process, clarification processes and negotiation, ending with the signing of the contract the second state is discerned. During negotiations maintenance processes present in state 4 is recognized. After the contract was signed and throughout the duration of the project there has been there

is high development activity, as would suggest state 3, while at certain times there has been a need for maintenance processes as well suggesting instances of state 4. The project relationship went through state 1 to state 2 where it also went to state 4. After that it proceeded to state 3, and have at several points during the project been in state 4. Figure 5 highlights the transitions between states that are recognized in the GEMC project so far. The numbers in figure 5, show the sequence of transitions. The number of transitions between state 3 and 4 are unclear since the transitions between these states are indistinct

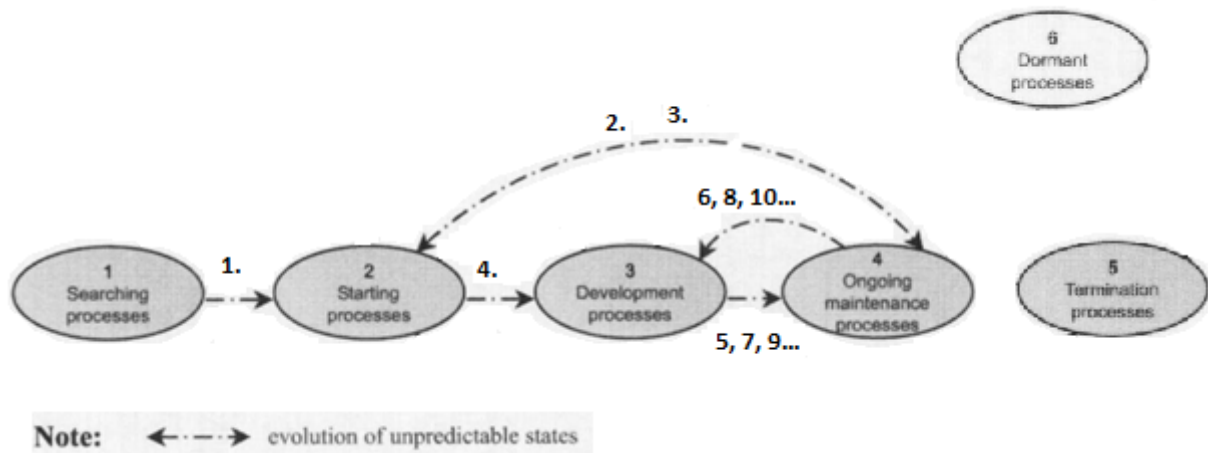


Figure 5 - Transitions between states in the GEMC project

5.1.3 EVALUATION OF THE PROJECT RELATIONSHIP DEVELOPMENT

The exact transitions into state in and out of the different states are generally hard to pinpoint. The results from the interviews suggest that the relationships were in a combination of states or in multiple states at the same time, where some are more prominent than other at certain points. In some transitions the activity in the current state declines, while the activity in the next state increases. An example of this is between state 1 and 2 in the TPC project. In the period from inquiry to signing of contract, state 2 is hard to distinguish from state 1 and 4, and after the signing of the contracts state 3 is hard to separate from state 4. It looks as though state 4 is a state that occurs in parallel with state 2 and 3. The relationships seem to enter state 3 upon signing the contract, and beginning regular discussions and formation of personal relationships. This state also seems to prevail throughout the duration of the projects given that the meeting activity is kept stable, relationships are further developed, and activities are continuously planned.

5.2 INITIATION OF THE PROJECT RELATIONSHIPS

This section will answer research question 2 by applying the new initiation model presented in section 2.6 to the results of the interviews presented in section 4. The different statuses and transitions the project

relationships have gone through will be identified. Aibel's activeness and the intentionality of the transitions will be analyzed. Next, Inhibiting and converting factors that affected the transition that took place in the project will be identified.

5.2.1 TPC PROJECT

5.2.1.1 Statuses and transitions

Aibel and Statoil had been working together for years, and had been cooperating on several projects, before the TPC project materialized. As already mentioned, the purpose of, and the need for the project was known to Aibel a long time in advance of the inquiry, so the distinction between the mutual recognition status, the buyer considered and mutual consideration is not a clear one. Following the definition of a project given in section 1.2, it is, however, clear that the formation of specific objectives and a certain amount of planning is needed for a potential project to form a real EPC project, whether it finally is started or not. The initiation that led to the TPC project therefore began at a time when both parties recognized each other but no project was yet considered. This corresponds with status 3 in the new model of initiation, where the seller is aware of the buyer, and knows that the buyer is aware of them.

From this status the project was a result of cooperation efforts between the parties. Aibel were involved in the screening studies with Statoil, where different solution concepts are explored. After the screening studies, Aibel did the FEED with Statoil, which made the basis for the EPC project and the inquiry. From the results of the interview and the dynamics of the initiation phase it is clear that the parties went from the mutual recognition status directly to the mutual consideration via the forward transition denoted k . In this transition the seller and the buyer is developing a project together. Aibel were an active part in the initiation of this transition as they were active in developing the project in cooperation with Statoil. The development of the project was a long process and the FEED alone lasted for about 12 months. Aibel enters the screening studies to help Statoil solve a problem with the Troll A platform, and as such there is an intention to establish a business relationship related to this problem. However, the intention to enter the specific project relationship is not there from the beginning, since the project is not yet developed. This corresponds with the description of the transition, as an active and unintentional process.

The process leading to a project agreement begins with the inquiry from Statoil for Aibel to submit a tender. Aibel is an active part in submitting their tender and participating in clarification meetings and negotiation activities. Statoil is, however, the active part in the initiation of this transition by issuing the inquiry. Aibel is therefore a reactive part in this transition, corresponding with two theorized possibilities in the model. Following the model, the process is intentional from Aibel's perspective if they enter the transition with the

intention of pursuing an agreement. By submitting the tender, Aibel enters this transition intentionally, and the process is therefore intentional. This corresponds with the description of the transition in the model.

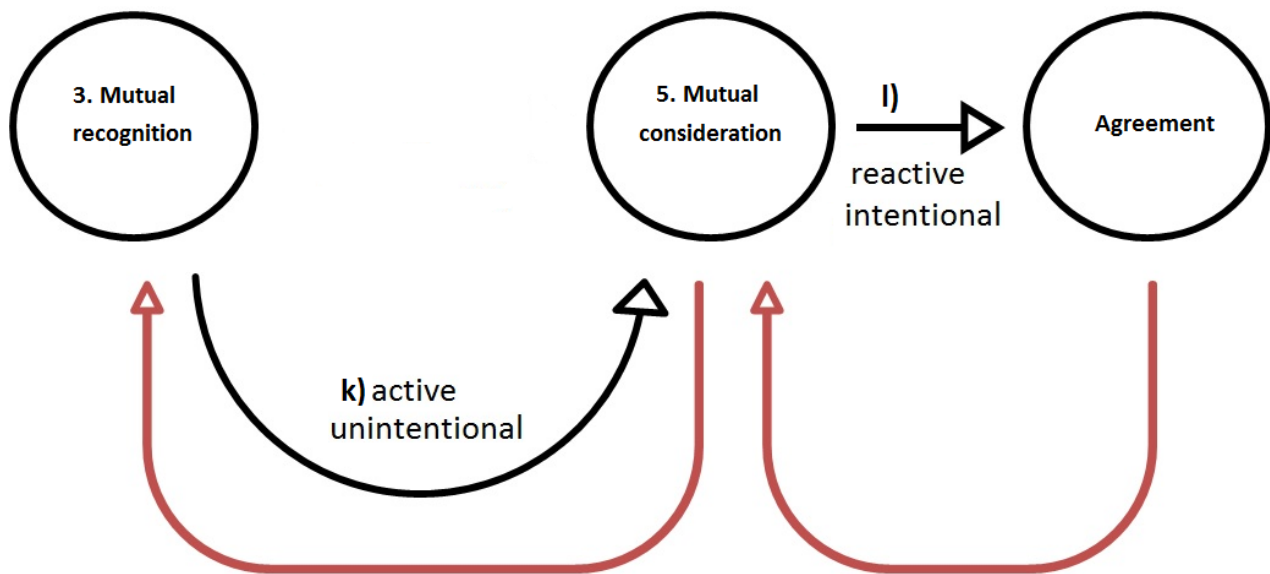


Figure 6 - Transitions between statuses, activeness and intentionality in the TPC project

5.2.1.2 Inhibitors and convertors

Converters:

Service offering: An important factor that drove the transition denoted *k* from mutual recognition to mutual consideration is the fact that Aibel offers Statoil service with screening studies and the FEED. The screening studies are the basis for the FEED, and the FEED is the basis for the inquiry. If Aibel had not contributed in the screening studies and in the FEED, it would have been almost impossible to submit a tender or co-develop the project. On this basis, the service offering is recognized as a converting factor.

“Before that (the FEED), you do the study work, and depending on the study work they might decide different concepts. Then you go into the FEED for the concept which is decided upon and you develop that concept further. You develop reliable schedules and you do cost estimates and layout drawings and structural drawings; Things which basically define the project.”

“...you use that FEED as a basis to go out on inquiry.”

Project experience: The experience with the similar project TPK was probably a factor that led to Aibel’s partaking in the development of the project, and according to the results of the interview a factor that led

to Aibel being awarded the contract. It is therefore one of the factors that act as a converter in the transition k from mutual recognition to mutual consideration, and from mutual consideration to agreement.

Technical experience: Aibel's technical experience in the Asker office was another factor that drove the transition between mutual consideration and agreement. Had they not had this technical experience it would have been harder for Aibel to win the contract ahead of Aker Solutions. This makes technical experience a converting factor.

Company (platform) experience: The experience gathered from working on the previous TPK project with the same client and at the same platform was a factor leading to the agreement. This factor, along with others, made it possible for Aibel to win the contract ahead of Aker Solutions. This factor also affected the transition between mutual recognition and mutual consideration, since the pre-qualification became a formality because of it. It therefore sped this transition up. On this basis, company experience is recognized as a converting factor.

The following quote on why Aibel won the contract illustrates the effect of Aibel's project, technical and company experience:

"They knew that we had the technical competence here in Asker. They were probably concerned about the technical experience of the personnel working in Stavanger for Aker and we had done the previous compression module. We also had a lot of knowledge of the Troll platform, because at the time we had been doing the maintenance and modifications contract at the Troll platform for five-six years. We had a lot of people with knowledge of TPK. When we won this contract we were finishing the Troll LQE contract which was completed a few months later. We had personnel who had been working with the Troll platform for years that we mobilized for this project. They knew the facility and were familiar with a lot of the issues and challenges. The fact that Statoil knew our people well from the Troll LQE contract and had worked with a number of them on the FEED played a big role in Statoil's positive evaluation of our tender."

Personal relationships: Statoil utilizes a grading system to evaluate the tenders they receive on their projects. The occasional subjective character of the basis for this grading, and the perceived effect personal relationships have on this, means that personal relationships in the tender organization and prior engagements could have affected the process positively. It could have tipped the contract award in Aibel's favor, or it could have sped Statoil's decision process up, by replacing prolonged assessment of the tenders. On this basis, personal relationship is recognized as a converting factor.

Inhibitors:

Location: Statoil wanted the project based in Europe. If Aibel only had operations outside of Europe, this could have caused Statoil to not include them in development of the project or in the inquiry. This would have stopped any transition into either mutual consideration or agreement. Location is therefore an inhibiting factor.

Personal relationships: Same as for the convertor, personal relationships could also have affected the process negatively. It could have tipped the contract award in the other direction, or slowed the process down by causing longer assessment to negate worries or insecurities about Aibel's capabilities. On this basis, personal relationship is recognized as a inhibiting factor.

5.2.2 GEMC PROJECT

5.2.2.1 Statutes and transitions

As GEMC project is a continuation of the GEM contract between Aibel and ConocoPhillips. Aibel were prepared for the tender of the new contract and knew the timing of this process. Aibel was, however, not partaking in the development of the contract that ConocoPhillips tendered, and had therefore no specific contract or project to consider. Consequently, the initiation of the project relationship began when both parties recognized each other, currently working on the previous contract. In an undisclosed period before the inquiry was made, ConocoPhillips knew the specifications of the contract they would tender, and were considering Aibel for the project relationship. Otherwise, they would have no contract to tender, or they would not have inquired Aibel. The situation nonetheless corresponds with the mutual recognition status in the model. Both parties are aware of each other, and the Aibel as the seller is not considering the specific project.

The inquiry is the prerequisite and the cause for Aibel's consideration of the project presented in the inquiry. After receiving the inquiry, Aibel's status was that they were considering the project. The inquiry is the activity that initiates the transition from the status where there is mutual recognition but no project consideration, to the status where there is mutual consideration of the project. At the same time, with the inquiry, ConocoPhillips had begun the process towards reaching a project agreement. The inquiry is, in other words, the activity that initiates the transition from a status where there is mutual consideration of the project, to the status where there is a project agreement. The inquiry is therefore both the activity that initiates the transition between status 3 and 5 and between status 5 and agreement. This seems to beg for a direct transition from the mutual recognition status to the agreement status in the model, but this will exclude the status of mutual consideration which is evidently present before the transition into the

agreement status is completed. Aibel could, for instance, after the inquiry was made, refuse to submit a tender and this would cause the project relationship initiation to stop at a time when both parties are considering the project. This argues for the presence of the mutual consideration status.

The transition from mutual recognition to mutual consideration is initiated by ConocoPhillips with the inquiry. The inquiry corresponds with a signaling of an interest from their side to engage Aibel in the project. The transition has at this point is already begun, whether or not Aibel chooses to respond, and the initiation of this transition is thus not intentional from Aibel's side. Aibel responds to this inquiry with a tender, which makes them a reactive party. It is worthwhile to note that any response or non-response would still make Aibel a reactive party as the definition of reactive in this model is all absence of activeness.

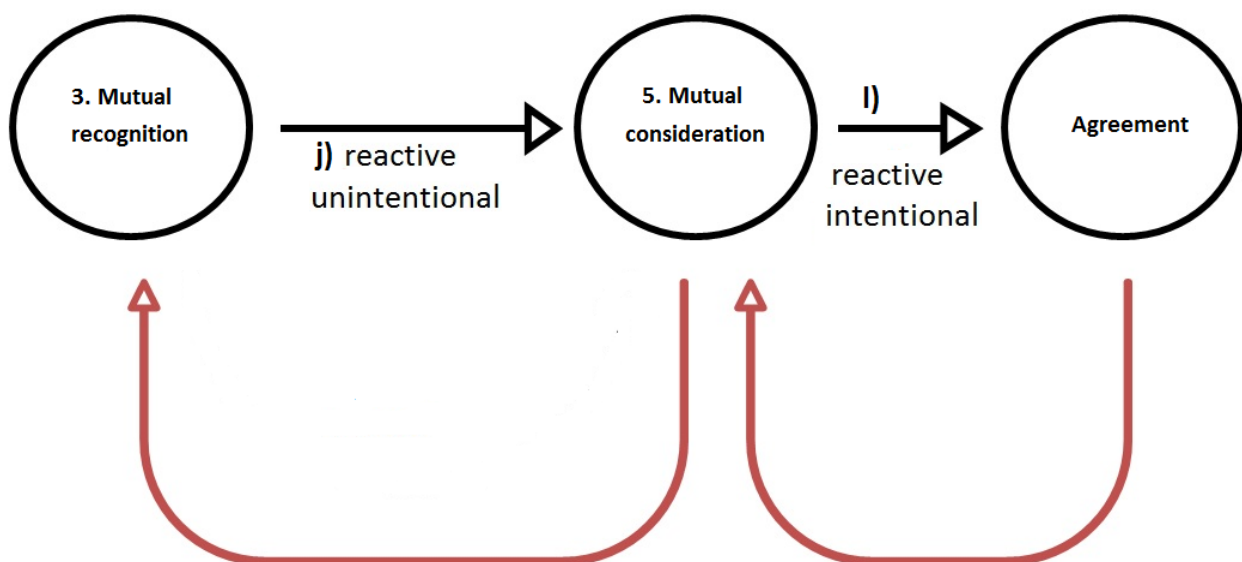


Figure 7- Transitions between statuses, activeness and intentionality in the GEMC project

5.2.2.2 Inhibitors and converters

Converters:

Personal relationships: There are many instances of personal relationships between people working in Aibel and the Norwegian organization of ConocoPhillips. Arild Refsland noted the positive effect this factor had on the tender process, and thus on the transition from status 5 to agreement:

“Yes, there is no doubt that the relationships we have built professionally, and in that respect also personally, creates a greater openness to gain things from each other. It is very important to have that relation.”

Company relationship and project experience: The fact that Aibel had the previous GEM contract with ConocoPhillips, meant that Aibel knew many of ConocoPhillips' expectations to the new contract, and had experience with many of the projects the framework contract would entail. This factor could have sped up their developing a tender. It could also contribute to the quality of their tender, and why ConocoPhillips awarded them the contract, in spite of the early conflicts. This makes company and project experience a potential converting factor. Refsland noted that:

"We tried to exploit the relations we had with ConocoPhillips to present a tender that would meet their expectations to the execution."

Inhibitors:

Accommodation: The negotiation process before the signing of the contract was longer than normal. The reason for this was that Aibel and ConocoPhillips had difficulties reaching an agreement on certain parameters in the contract. Aibel argues that the rates in the contract which was supposed to give a zero profit, actually will give a deficit. In light of this information, the failure of ConocoPhillips' headquarters' organization to accommodate the parameters to Aibel's actual need was the reason for the prolonged negotiation process. This factor, in other words, slowed down the transition from status 5 to agreement.

"Houston came in and overruled the tender team that had developed the contract and given their recommendation. They went into Aibel's accounting to find what they meant were zero profit level, which now proves not to be zero profit, but deficit."

Incorporated specifications: In Arild Refsland's view, the reason why ConocoPhillips' headquarters' organization got involved in the negotiation process in the first place, was the close connection between Aibel's and ConocoPhillips' GEM organizations. ConocoPhillips' headquarter were concerned that the development of a new contract would suffer from the culture and the behavior that had been instilled in the previous contract.

"It is my perception that the reason why the negotiation process took so much time was the concern ConocoPhillips had that there was no objective assessment of Aibel's tender. That it was so established that the tender team could not be objective in their assessment."

Project dependence: Despite Aibel impression of being forced to accept the conditions in the contract, they did not cancel the process. In this case the initiation of the project relationship would stop or possibly transition back to a mutual recognition status (if an inquiry or a tender could be made for the same contract). One of the reasons why Aibel did not back out and thus an inhibiting factor to cancellation or backwards transition was the importance of the contract to Aibel.

“It (the contract) gives a basic revenue to Aibel for many years which gives a good stability. So, for Aibel it is important to have this contract in order to have a steady activity level and the predictability.”

6. DISCUSSION

The analysis shows that the initiation of the TPC project relationship began from a mutual recognition status. The relationship moved into a mutual consideration status via a co-development of the project specifications. An agreement was reached through tender, clarification and negotiation processes. Service offering, personal relationships, and project, technical and company experience were identified as converting factors, while location and personal relationships were identified as inhibitors. The TPC project relationship shows a progression from searching processes in state 1, through starting processes in state 2, to development processes in state 3. After the contract was signed, the relationship shows processes suggesting presence in state 3 and 4 at several points in time, also overlapping.

The initiation of the GEMC project relationship also began from a mutual recognition status. The relationship moved into a mutual consideration status when ConocoPhillips inquired Aibel to submit a tender for the project. An agreement was reached through tender, clarification and, especially significant, negotiation processes. Personal relationships and company and project experience were identified as converting factors, while accommodation, incorporated specifications and project dependence were identified as inhibiting factors. The GEMC project relationship shows a progression from searching processes in state 1, through starting processes in state 2 and maintenance processes in state 4, to development processes in state 3. After the contract was signed, the relationship shows processes suggesting presence in state 3 and 4 at several points in time, also overlapping.

In this section the analysis of the initiation and development processes in these two projects will firstly be discussed in relation to the various theory presented in the literature review in section 2. After that the project relationships will be compared and the result of the analysis will be further discussed.

6.1 STAGES THEORY

The analysis of the development of the project relationships shows consistency with the criticism of the stages theory presented in section 2.3.1.3. The relationships do not develop in a sequential manner, but goes back and forth through states, supporting Quinn & Cameron (1983) and Ford et al. (1996). The transitions are indistinct and hard to pinpoint, and the processes and factors that determine the progress from one state to another are not clear, supporting Quinn & Cameron (1983) and Batonda & Perry (2003). The degree of cooperation between Aibel and the companies in the project relationships, could suggest that the “dancing” and “mating” metaphors could aid in describing these relationships.

6.2 STATES THEORY

The project relationships were analyzed to possibly exist in more than one state at the same time, as described in section 5.1.3. As presented in section 2.3.2, Batonda & Perry (2003) describes a state as one of several possible conditions. The result in this research is therefore consistent with this part of states theory. As noted in section 5.1.3, the activity in one state declines while the activity in another state increases. This lends credence to the notion of *evolution of unpredictable states* in Batonda & Perry (2003), as the transitions are gradual. In the TPC project, the choice of ICC manager as a starting process in state 2, affected the processes in state 4 with his eventual replacement, and in state 3 with the need for new individual relationship development. In the GEMC project, the negotiation process in state 2 affected the continuing lack of social activities in state 3. These examples support Andersen et al. (1994) in suggesting that the outcome of activities affect the state the relationships is in, leading to an unpredictable process.

6.3 THE SIX STATES MODEL

The analysis utilizing the six states model reveals that both project relationships develop semi-linearly through the states. Both relationships show a progression through states 1 and 2, to 3, although the GEMC project relationship involves maintenance activities indicating state 4 in the post-tender processes. States 3 and 4, however, show no apparent linearity in either of the project relationships. The results of the analysis support the conclusion in Batonda & Perry (2003) that the development is complex and frequently non-linear. The semi-linearity could suggest that the development of project relationships between service companies and petroleum companies show signs of being predictable. Arguing against predictability is the recognition that the exact transitions between the states are difficult to detect and the states are also not completely distinguishable. The transition between state 1 and 2 in the TPC project, for example, is indistinct, where some starting activities are begun while searching activities still are predominant. The project relationships at certain points involve several activities that suggest one state, and at the same time involve other activities that suggest a different state. An example of this is the continuing development

activities in the GEMC project that coincide with periodical maintenance activities, suggesting the coexistence of state 3 and 4.

Compared with other utilizations of the six states model discussed in section 2.3.3.1, this research does not investigate state 5 or 6. The reason for this is that neither of the project relationships in this research involved activities that would suggest these stages. The model was developed to a lesser degree than in the case of Tyler et al. (2006), Kallevåg & Moen (2007) and Kaunonen (2010). Similarly with these three studies, this project is a case study of buyer-seller relationship. Polonsky (2010) on the other hand, is purely a literature study.

6.4 THE FOUR PERSPECTIVES ON RELATIONSHIP INITIATION

The initiation of the project relationships are defined to begin when the parties recognize each other and end when an agreement is reached. The results of the analysis showed that the project relationships can move into state 4 and partly into state 3 before an agreement is reached. The result is therefore inconsistent with the relationship development approach to investigate relationship initiation processes, as discussed in section 2.4.2. In this approach, as seen in table 5, only the first phase(s) are included in the investigation.

The initiation process, as revealed by analysis, shows traits of resembling the processes described by the buyer-seller approaches to initiation. The presentation of solution which is mentioned both in Moncrief & Marshall (2005) and Hedaa (1996), is a significant presence through the tender. Overcoming objections (Hedaa, 1996) is also present through clarifications and negotiation. Other satisfied customers and experts, through recommendations and communication networks (Aarikka-Stenroos, 2008), is, however, not an apparent strong factor in the analysis. The seller relies more on the experience of the buyer, than that of other advocates. From the buyer's perspective, the tasks suggested by Webster & Wind (1996) seem to capture the main activities present, while the phases identified by Robinson et al. (1967) are less accurate. Since the sellers included in the inquiry are selected from an existing network, these networks are important also early in the process. This contrasts the findings in Johnston & Lewin (1996) that impersonal sources can be relied upon early in the process.

The analysis has not found instances of third-parties playing significant roles in the initiation of the project relationships. Because of this, the network approach would not aid the understanding of these project relationships much. However, as established in analysis, social relations can play a crucial role in the initiation processes, supporting Uzzi (1997) and suggesting the value of the social embeddedness approach.

In the GEMC project, the personal relationships were important in deciding the openness of the parties, and in the TPC project, Statoil's grading of the different sellers is subjective and thus reliant on personal relationships.

6.5 A NEW MODEL OF RELATIONSHIP INITIATION PROCESS

The findings in this research support the notion in Edvardsson et al. (2008) that there is no automation in the progress between the statuses in terms of speed. The time between the status where there were no specific project defined and agreement differed for the two projects, and the negotiation process in the GEMC project lasted longer than expected. The findings are inconclusive when it comes to the necessity of the converters that were found for the transitions between the statuses. The service offering in the TPC project was analyzed to be a crucial factor in the transition from mutual recognition to mutual consideration. However, it is, for instance, not apparent that the personal relationships, and the project and company experience was necessary for the transition from mutual consideration to agreement. This, in itself, is not an argument against the finding in Edvardsson et al. (2008) that the converters are necessary. Other factors, not identified in the analysis, might exist, that together with the identified factors make up a necessary basis.

Among the identified converters in Edvardsson et al. (2008) only service offering was identified as a converter in the TPC project. The time factor was not discovered to play a central role, and trust played an indirect role in the TPC project by affecting the development of the project. One of the amendments was signed six months after the decisions took effect, based on trust. This trust could have existed in the initiation phase and played a role, but this is not evident in the interview findings. Instead of trust as insurance, the parties' experience with each other, and the seller's experience with the type of project, was significant factors in both projects. Penalties in the TPC project and the sharing of potential deficits, might have also contributed to replace the trust factor. Lastly the trust, and the time, factor could have been present, but not recognized by the informants or the methodology.

6.6 KEY FEATURES AND PROCESSES OF INITIATION

The inclusion of the activeness and intentionality dimensions described in Aarikka-Stenroos (2008) in the model has proven to have explanatory power. Through a process of systematic combining a general model has been developed that is consistent with the findings in the case study of Aibel's project relationships. These dimensions highlight the intentionality of the seller in transitioning forward through the statuses, and reveal the activeness of the seller in initiating these transitions.

The need and motivation for the project relationships are recognized in the two projects as a part of the searching processes in the six states model and also act as the launch of the relationship development process. This sub-process as described in section 2.4.4 is therefore recognized in both project relationships. The sub-process of *identifying matching, attractive partner* is also found in both project relationships. Social relations played a significant role in the negotiation process of the GEMC project, and in the TPC project Statoil's evaluation of Aibel's previous performance played a determining role. These are examples of processes consistent with the description of the sub-process in section 2.4.4. *Creation of access*, on the other hand, was not a significant feature in the interview findings. The fact that the companies had cooperated with each other in previous project, and thereby already established access, might be the reason for this.

In the TPC project, the co-development of the project entailed a constant sharing of information about the other party's operations. In the GEMC project the highly similar GEM project also entailed constant information sharing. The tender clarification and negotiation process of both projects rely on performance evaluation of previous projects, and sharing of information. The sub-process of *constant information gathering and providing, performance scanning and performance verification* is therefore present in the initiation of the project relationships. The tendering of the projects represents a forming and defining of the project transactions, and the negotiation process entails negotiations and bargaining over rates and specifications. The sub-process of *forming and defining the first focal transaction* is therefore also recognized in the analysis.

The analysis of the interview findings show that the presence of activities to create trust, to get acquainted and to gain mutual understanding is more apparent in the processes of team-building after the agreement was reached. The sub-process of *building conditions to operate* is therefore not a key feature in the initiation process, as is suggested in section 2.4.4. However, as already discussed, personal relations still play a significant role in the other initiation processes. Again, the fact the parties have been involved in prior project relationships might mitigate the need for these activities. The activities of forecasting the future of the project relationships through planning of activities in relation to project goals are identified in the team-building activities after initiation, while matching of personal compatibility is recognized in the clarification process. An example of this is the replacement of a candidate in the clarification process of the TPC project. The sub-process of *planning and forming the future of potential relationship* is therefore only partly recognized in the initiation process.

In summary, most of the sub-processes of initiation suggested by Aarikka-Stenroos (2008) are recognized in the analysis of the interview findings, while a few of them are not present. The absence of some of the sub-

processes can be partly explained by the previous similar project relationships between the same companies.

6.7 INITIATION AND DEVELOPMENT OF THE PROJECT RELATIONSHIPS

In both project relationships the beginning of the starting processes in state 1 relating to the projects are hard to track, as they seem to begin long before the projects take form. The petroleum companies look to have a continuing need for maintenance and modifications on their offshore installations and the study work identifying the possible solutions is outsourced to the service companies. This means that there are continuing activities by the service companies for the petroleum companies to identify need and purpose for potential projects and project relationships. In this work, the service companies are continuously evaluating their own capability to work with the solutions. They are also evaluating their own needs in a project relationship and comparing it with what the petroleum companies can offer them in a project relationship working with the specific solutions. The petroleum companies are acquiring new information about the service companies doing the study work for them, and can continuously evaluate the capability of these companies in relation to their own needs in a project relationship. The relationship that these activities between a petroleum company and a service company define may or may not develop into a project.

Both project relationships involve long periods of searching and starting processes, which would indicate that the choice of partners is important and thoroughly evaluated and established before the projects begin. These processes create the foundation for the processes after the contract is signed, and the amount of value that is at stake in projects at this size, means that the compatibility between the parties is highly important. In spite of this, both project relationships encounter conflicts and go through changes. Most of these challenges are caused by third parties or accidents, while some are due to conditions in the relationships. Examples of the former are the replacement of work to Thailand in the TPC project caused by underperformance of the Polish contractors, and the reimbursement of costs in the GEMC project caused by the shutdown at the Ekofisk field. The involvement of ConocoPhillips' headquarter in the GEMC negotiations and the replacement of the ICC manager in the TPC projects were on the other hand caused by conditions in the relationships. The complexity and size of the projects might prevent the thorough establishment and choice of relationship of insuring against these conditions.

There are a few main differences in the development of the two projects. In the GEMC there was a need for maintenance activities before the contract was signed to solve conflicts of interest. The processes before the contract was signed in the TPC project proceeded without such activities. Another difference is a higher

need for development activities in the GEMC project relating to the clarification of responsibilities. This could indicate that there are factors in the GEMC initiation process that made this process more prone to conflicts, and caused a stronger need for continuing development activities later in the project. The differences between the pre-tender initiation processes, revealed by analysis, are that the TPC project relationship is the result of an active cooperation between Aibel and Statoil, while the GEMC project is the result of Aibel's reaction to ConocoPhillips' inquiry. Aibel was consequently a lesser part in the development of the GEMC project than the TPC project. This means that they had less knowledge of the final specifications of the GEMC project before going into the tender and post-tender processes, including changes from the previous GEM project, and responsibility allocation.

A suggestion of a connection between the different activeness in initiation and the different development of the projects is therefore reasonable, but this connection can still be unique for these projects, and is thus not an argument for the necessity of the connection. It is also possible that this connection is affected by different factors in the projects. In the TPC project, reactivity in the transition between status 3 and 5 might be followed by lower development and maintenance activity than if the transition was active, and vice versa in the GEMC project. Still, based on the results of this research, there is an advantage in being active in the transition from a mutual recognition status to a mutual consideration status by co-developing the project with the client. This decreases the chances of early conflicts over contract specifications, and the amount of relationship development activities after a project start-up phase.

Both project relationships were initiated from a status where the companies were aware of each other and had cooperated on prior projects. The relationships between the companies, outside the frame of the projects, were in both cases so well established that the pre-qualification became a formality. The company and project experience that Aibel possessed was an important factor in driving the initiation of the project relationships forward. The petroleum companies, in light of this, appear to choose service companies that have experience with their company or the type of project activities they want performed. Experience with the petroleum company and similar projects are therefore highly valuable and essential to the service companies that seek to be awarded these types of projects.

In the initiation process of both projects, Aibel were the reactive part in initiating the transition towards an agreement, as their tenders were responses to inquiries from the clients. This indicates that the petroleum companies choose which service companies they want to receive tenders from, and that the service companies therefore have less possibility of choosing which projects they want to try to win. Winning a project with a client they have no experience with, regardless of their technical experience and competence, will demand an active approach and as such a different initiation process.

6.8 THE INTERVIEW FINDINGS IN RELATION TO THE BACKGROUND FOR THE RESEARCH

The findings of this research provide information to Aibel and other service companies about the dynamics and activities in the initiation phase and the development of project relationships. This can provide insight into the factors that make Norwegian companies better on delivery reliability, lead time and monitoring costs. The research points to factors as the activeness in initiation of the project relationships and the amount of searching and starting activities being performed before project agreement.

It can also highlight areas where improvements can be made to cooperation processes before tender, and to facilitate a better information flow and exchange of experience.

In an internationalization perspective the findings in this research can provide insight in how project relationships can be and are initiated and develop to complement the research on why, where, when and with whom the project relationships should be initiated and developed.

A shortcoming of this research in relation to the background is the generalizability. This case study concerns Aibel, which is a Norwegian company with a specific set of legal frames to operate within. Furthermore they might have certain strengths or weaknesses that determine how their processes proceed, and that are not shared by general service companies.

7. CONCLUSION

Increasingly, petroleum companies operating on the Norwegian continental shelf has awarded EPCIC contracts to foreign service companies instead of the Norwegian companies. This has caused concern in the Norwegian service industry. Relationship development and initiation in the petroleum industry has received little attention from researchers. This is the background for the purpose of this project to investigate how project relationships between petroleum companies and service companies develop and are initiated. Through a literature review covering the relevant research into this research field, models were developed to aid a case study on two separate projects between a Norwegian service company and two separate petroleum companies operating on the Norwegian continental shelf. Two research questions have been answered through analysis.

The project relationships between petroleum companies and service companies are developed in a semi-linear process through unpredictable states that involve certain activities. The transitions between the states are both diffuse and indistinct. The transitions are, in other words, hard to recognize and that the

relationships often show signs of being in more than one state at the same time. A great deal of effort and time is invested in the two first states defined by searching and starting processes contributing to well-functioning project relationships. In spite of the high amount of pre-contract efforts, the complexity and size of the projects leads to unforeseeable occurrences and changes that does not benefit the objectives of the projects. These situations require additional development and maintenance processes to secure the continued functioning of the relationships.

The project relationships between petroleum companies and service companies are initiated from a status where both companies have experience with each other from previous projects. For the service companies, experience with the petroleum company and similar projects are essential factors in driving the initiation forward, ahead of competition, towards a project contract. The service companies either actively co-develop the project with the petroleum companies, or reactively respond to an inquiry to tender for a project that they have not been a direct part in developing. The tender process demonstrates that the petroleum company is realizing a potential project, and in this process the service companies are a reactive part, answering to an inquiry.

This research suggests a connection between activeness in the initiation, and the development of the project relationship. Activeness in the development of the project in the initiation phase leads to a lower need for maintenance activities in the initiation and development activities after the signing of the project contract.

7.1 MANAGERIAL IMPLICATIONS

In light of the discussion and conclusion, a few managerial implications for Norwegian service companies are identified:

Maintain and nurture activities and experience with preferred companies and project types. A varied set of companies and project types create more opportunities.

Since company and project experience is an essential factor to drive the project relationship initiation, a service company benefits from a company and project experience as extensive as possible. A strategy of service companies to enter varied projects with varied petroleum companies provide stronger possibilities for a varied set of projects with a varied set of petroleum companies in the future. A strategy to enter the same type of projects with the same petroleum company provides stronger possibilities of being awarded similar projects, and projects with the same client. The latter strategy might at the same time cause

company or project dependence. Service companies should maintain and nurture the activities and experience they have with companies and projects they want to work with in the future.

Co-develop projects with clients through study work and FEED

The advantage of being active in co-developing projects with a petroleum company and the detection of service offering as a converting factor, suggests that service companies should offer the service of participating in processes that creates potential projects, such as study work or FEED. The reason for this is that it decreases the chances of early conflicts over contract specifications and the amount of relationship development activities needed after a project start-up phase, in the projects that are realized. These processes also contribute to the company experience which also acts as a converting factor in initiation.

Develop personal relationships to benefit future project relationships

Since personal relationships are found to be both converting and inhibiting factors, managers should have a focus on the personal relationships they develop and can develop in the projects. These relationships can affect future project relationship initiation processes, and are not only important in the present project.

Consider location of operations carefully

In June, 2013, the CEO of Aibel, Jan Skogseth, was cited in Teknisk Ukeblad, in response to Rystad Energy's report, saying:

“We have to become better at outsourcing parts of the engineering and fabrications” (TU, 2013)

The location converter recognized in this research suggests that the management of Aibel and other service companies should think carefully about where they want their operations taking place geographically. On the other hand, the interviews also showed that Statoil, as a petroleum company, is gradually improving more outsourcing of operations to an Asian location.

7.2 FURTHER RESEARCH

This research has provided a comparative basis to further investigate relationship development and initiation in the petroleum industry. Further research should seek to investigate more service companies and a broader range of different project relationships between these companies and petroleum companies. This can increase the generalizability and transferability of the research.

The conclusion of this project suggests further research into the activeness of service companies in the development of project specifications, and a possible connection to activities in the project relationship that does not serve the project objectives directly.

The conclusion of this research suggests a benefit of pursuing activities, such as study work and FEED, which co-develop projects with clients. However, not all of the study work and FEED materialize in real projects, as the description of the TPC project in section 4.1 explains. Research should examine the actual value of these activities in terms of the profits, projects and experience they yield, and also how companies can make sure which of, and when, these activities are worthwhile.

The research in this project will be continued in a master thesis that will investigate relationship development and initiation between a South Korean service company (that have won contracts on the Norwegian continental shelf), and petroleum companies operating on the Norwegian continental shelf. The result of this research concerning Norwegian service companies will be compared with the new research and will aid to an understanding of potential international differences in terms of culture, norms, practices, etc.

During 2014, I will contact South Korean service companies like Daewoo Heavy Industries, Samsung Heavy Industries and Hyundai Heavy Industries, with the intention of establishing access to information about their project activity. The initial plan is to select projects concerning installations on the Norwegian continental shelf, involving one or more of these service companies and a petroleum company. Data concerning the project relationships initiation and development will be gathered through a similar interview process as have been utilized in this project. The same models utilized in this project will be developed through a systematic combining process and utilized to analyze these project relationships. The purpose of this research will, among other, to compare results with those from the present project to investigate similarities and dissimilarities. The result of this comparison will also be investigated from the perspective of the internationalization literature.

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