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**StatoilHydro Canada:
Prospects and challenges from a
subsidiary perspective**

Work note – 2009/60

Project number: 7202063
Project title: Integration Research Programme
Client: Statoil
Research programme
ISBN: 978-82-490-0679-3
Distribution: Open

Stavanger,

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Executive summary

StatoilHydro (SH) Canada is currently undergoing an integration of three organizations: North American Oil Sands Corporation (NAOSC), Statoil, and Hydro. As with most multinational mergers and acquisitions, a number of implementation challenges arise. One of the greatest challenges identified by SH Canada is the shift from a local entrepreneurial organization (NAOSC) to a process oriented multinational. This shift introduces significant changes in terms of lengthier decision making processes that require involvement from the parent organization as well as unclear roles and responsibilities. In addition, SH Canada must successfully balance the global and local pressures for developing and using resources. The complexity of these dual pressures increases as the internal resources and networks change as a result of the ongoing integration process. The following issues were identified as key challenges from data collected during open-ended interviews with managers:

- Ensuring that resources (referred to as firm specific advantages, FSAs, in the report) that are transferred from other parts of the SH organization are recombined with local resources to add value in the Canadian context.
- Shifting the mindset in SH Canada to a matrix organization, reflecting a more process oriented multinational than pre-merger oil sands activities.
- Securing that resources are prioritized for developing location-specific FSAs in areas where local strategies are valuable such as water and land management.
- Identifying and addressing subtle communication barriers that may hinder the successful transfer of FSAs.

The findings are based on an initial data collection from managers in SH Canada. Further data collection and analysis is required to identify specifically how internal networks are tapped into and how location-specific FSAs are developed. Additional analysis is therefore recommended in the following areas:

- How does SH Canada draw on competence and experience in other parts of the organization?
- How specifically are the resources transferred?
- How can SH Canada ensure that the proper internal networks are “tapped into”?
- How does SH Canada secure continuity of local competence and experience to ensure recombination abilities?
- Exemplify further which areas are in particular need of a very local approach to the development and use of resources.

1 Introduction

StatoilHydro (SH) Canada has grown significantly over the past two years through the acquisition of North American Oil Sands Corporation (NAOSC) in June 2007. The oil sands activities are mainly focused on the development phase of the Kai Kos Dehseh project that has a scheduled production start in 2011. SH Canada also manages offshore assets on the Canadian east coast, initiated by Norsk Hydro in the mid 1990s. As Statoil and Hydro merged in October 2007 the local organization was faced with the challenge of merging and integrating three companies: NAOSC, Statoil and Hydro. As with most multinationals, SH Canada must also balance global versus local pressures for the development and use of resources. The ongoing integration process potentially increases this challenge of dual pressures, particularly as the internal resource pool and networks change.

The initial purpose of this data collection was twofold. First, to examine the impact and potential effects of the integration process, particularly in terms of increased space of action, increased capacity to act and efficiency. Second, to identify resources (e.g. knowledge, technology or processes) that require local versus global orientation. It is assumed that multinational companies often benefit from transferring resources across geographical borders. There are simultaneously strong forces in the local environments that force firms to develop and exploit location-specific resources to remain competitive or even secure a “license to operate” locally.

From a Canadian perspective, the main differences in the heritage and culture of the three organizations are found between NAOSC, which was a smaller Canadian entrepreneurial firm of approximately 100 employees, and the two Norwegian multinationals. Some of the main changes experienced by NAOSC personnel include the lengthier decision making processes, headquarter involvement and emphasis on common systems and procedures. While the parent organization mainly emphasizes the integration of Statoil and Hydro and their differences in heritages and culture, this seems to be of less concern locally in SH Canada. Rather, it is the integration of the larger Norwegian organization with the smaller entrepreneurial Canadian organization (NAOSC) and general Canadian “ways of doing business” that is perceived as a key integration challenge.

Although NAOSC initially held significant experience, expertise and local relations that was highly valued by the parent organization, the scale of the investment moving forward and the strategic importance of the oilsands warrant significant headquarter involvement. Indeed, StatoilHydro’s Capital Value Process (CVP) for investment projects mandates involvement from the parent organization. The long term success of SH Canada is thus contingent upon the ability to combine cross-border transfer of critical resources with the development of local resources in several key areas. Analysis of the characteristics of SH Canada indicates that the dual global and local pressures deviate somewhat from common theoretical frameworks that view foreign subsidiaries primarily as either integrated with the parent organization or quite autonomous. SH Canada illustrates a more complex hybrid combination of roles in the foreign subsidiary where the firm needs to combine the successful transfer of resources in selected areas

while still ensuring a local approach to some of the top strategic challenges facing the firm locally.

The SH organization has adopted a matrix organization to address this complexity, which from a theoretical perspective is a commonly preferred organization structure to organizations characterized by dual pressures requiring complex control and coordination mechanisms. While the matrix organization is theoretically justified, it does pose many practical challenges related to involvement in decision making processes, grey zones related to areas of roles and responsibility, and ensuring that individuals tap into the right sources of knowledge. Research shows that the transfer of knowledge can become “sticky” at times posing challenges to efficient and valuable cross-border interaction (Szulanski, 2003).

This report will initially summarize the interim findings related to the integration and areas in need of global versus local strategy and relate this to our current theoretical frameworks. A discussion of some of the challenges related to these issues will then follow. Finally potential management implications will be addressed with suggestions for moving forward. The report is based on data collected in SH Canada in the period of August – December 2009. A total of ten open-ended interviews were conducted with managers, lasting approximately 1 – 1.5 hours each. The interviews were all taped and transcribed where the interviewees were given the opportunity to read the transcripts after the interview. Information provided in the interviews has been treated anonymously and confidentially. The data collected and current analysis represents the initial stages of an ongoing research project.

2 Merging and integrating three organizations

Many of the issues discussed in this report are influenced by the fact that SH Canada has developed from an integration of three companies: the Canadian-based NAOSC, Statoil and Hydro. Norsk Hydro established a Canadian subsidiary in the mid 1990s to manage offshore assets on the Canadian east coast while Statoil entered the Canadian oil sands through its acquisition of NAOSC in June 2007. When Statoil merged with the Oil and Gas Division of Norsk Hydro in October 2007, their Canadian offices were initially run as two separate organizations. The perceived synergies, however, of co-locating and integrating the two local Canadian organizations eventually led to SH Canada emerging as one unified organization in 2008.

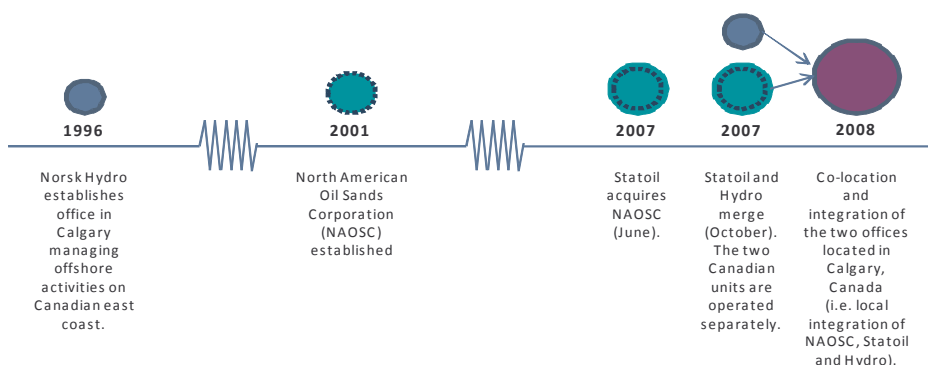


Figure 1. Illustration of the timeline involving three separate organizations that are now integrated as one in SH Canada.

3 Integration prospects

The interviews suggest that SH Canada generally perceives the differences between the two Norwegian firms as minor relative to the differences between NAOSC and StatoilHydro. Shifting from an entrepreneurial firm to a process-oriented multinational is thus perceived as the main local integration challenge. While Statoil (NAOSC) and Hydro initially operated as two separate units in Canada, the local integration of the two organizational units have so far primarily resulted in administrative benefits such as shared resources and reporting. Immediate effects of the integration process of two large organizations in Norway are primarily expressed in terms of changes in the internal networks (e.g. due to job rotations, new organizational units and changes in areas of responsibility) and securing adequate support from headquarters (HQ) to effectively implement management systems locally. Other potential integration effects in SH Canada have been examined according to three criteria: i) increased space of action, ii) increased capacity to act and iii) efficiency.

Increased space of action can arise in different forms such as improved markets or business relationships, creation of new resources or introduction to new customers. While the overall space of action has not necessarily increased for the integrated organization, each part in the merger or acquisition has experienced increased space of action relative to their position prior to the integration. NAOSC achieved increased space of action through necessary capital inflow and the ability to draw on a larger pool of resources. Hydro increased its space of action through entering the oilsands and Statoil increased its space of action by expanding its operations into the Canadian market both offshore and in the oil sands. Entering the oilsands through an acquisition has been invaluable for SH in terms of tapping into existing competences, experiences and business networks.

Increased capacity to act can be characterized as gaining access to specific resources or the development of new competencies or technologies. The infusion of capital significantly increased NAOSC's capacity to act. For Statoil and Hydro, the integration not only opened up new markets, as mentioned above, but also provided ownership to valuable local competence. All three companies that have merged into SH Canada have

definitely experienced an increase in their access to specific resources. Despite these benefits, there are clearly challenges experienced in the integrated organization in terms of unclear roles and areas of responsibility and how to optimally build on the sometimes overlapping competences and experiences. As one person summarized “you have lots of different players coming in playing different instruments and you’re maybe not sounding like an orchestra yet. You’ve got two people holding the cello and you’ve both played cello before but you are not sure who is supposed to play first chair so you both play it tentative”. This situation challenges SH Canada to draw on and combine expertise and experience from many areas of the larger organization (i. e. the ability to recombine resources).

The third area where potential integration effects have been examined is the issue of efficiency. While the overall integration of Statoil and Hydro seeks to achieve increased efficiency, the challenges of integrating three companies in SH Canada has not necessarily increased the efficiency in the Canadian market. For some, the shift from a smaller and leaner organization to a larger more process-oriented organization is perceived as less efficient and even a bit “bureaucratic”. At the same time, the smaller organization (NAOSC) would undoubtedly have had difficulties pursuing the scale of development and capital investments without becoming part of a larger organization (related to limited capacity to act). Several of the processes that have been introduced since the SH integration have by some been perceived as “slowing down” decision making in SH Canada. There does, however, seem to be a fundamental acceptance of the underlying concepts and principles of these new corporate processes. Some challenges have been identified, particularly related to cross-border communication and where and how to recombine resources. These will be discussed under the section of current challenges.

4 A global versus local strategy

Firms that establish foreign operations face a number of strategic challenges that may differ from purely domestic operations such as initial decisions on the timing and mode of entry into a foreign market. One of the key ongoing challenges of foreign operations is the strategic positioning of the foreign units both in relation to the parent organization and local external environments. Foreign units that are more integrated in the parent organization rely on transferring resources across geographical and organizational boundaries. Foreign units that are more responsive to the specific local needs, on the other hand, must ensure that sufficient local expertise is developed and utilized. This strategic positioning of the foreign units relative to the larger multinational and local environment cannot be treated statically as both internal and external dynamics change. A merger, for instance, will likely alter the available internal resources and internal interdependencies. Most firms therefore benefit from a continuous assessment of how to best balance a global versus local strategy.

In general, firms choose to integrate activities internationally in contexts where external pressures push firms towards seeking greater efficiencies, economies of scale and synergies from existing internal strengths. Such firms typically have large global

competitors where the end product or service is not easily differentiated. Firms must be able to successfully transfer resources (hereafter referred to as firm specific advantages, FSAs) across national and organizational borders to succeed with global integration. FSAs are here defined as resources, or a capability to combine resources, that give the firm a competitive advantage. Examples of transferrable FSAs include specific know-how or technology, organizational capabilities (e.g. ability to plan and execute large development projects) or established routines for a successful marketing roll-out (Rugman & Verbeke, 1992; Verbeke, 2009). While there are many benefits of integrating units internationally, there may also be external pressures that push firms towards adapting activities to specific needs in a local context. Such pressures may be purely driven by differences in customer tastes and preferences. Other times, such as for natural resource-seeking firms, pressures for increased localization can stem from differences in regulatory environments, technological challenges or the need to build important relations with local stakeholders. Such differences place limitations on the ability and value of transferring FSAs across borders. Hence, not all FSAs add value in other locations than where they originated.

Literature on international management suggests that firms typically focus on either integrating activities across borders or adapting to local needs. Figure 2 below illustrates these two key strategic dimensions. The role of the foreign subsidiaries consequently differs fundamentally as globally integrated companies need receptive (R) foreign subsidiaries that are open and able to transfer FSAs. Successfully adapting to local needs, however, necessitates autonomous (A) foreign subsidiaries that are capable of developing and exploiting FSAs that add value in that particular context. It is important to note that the word autonomous does not indicate a complete lack of involvement from the parent organization or full delegation of capital investment decisions. Rather, it is the responsibility and ability to develop local resources such as specific competences and business relations.

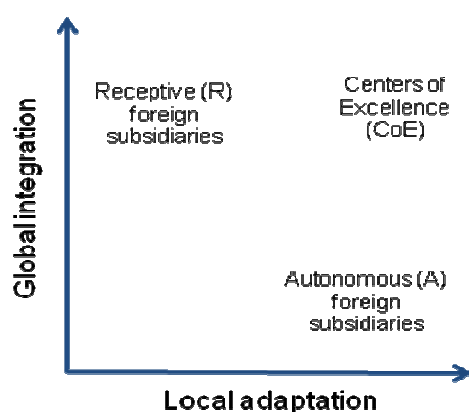


Figure 2: Strategic positioning of multinational activities

Some foreign units also combine global integration and local adaptation through the establishment of Centers of Excellence (CoEs). CoEs typically have global mandates for particular knowledge, processes or technology that may have originated locally.

4.1 A global focus emphasizing transferrable FSAs

In SH Canada, several FSAs have been identified as valuable to transfer across borders such as specific expertise in geology and geophysics (G&G), project management skills, HSE practices, HR practices and procurement processes. The potential added value of building on existing knowledge and experience in these areas has been recognized by several respondents. Ignoring these existing FSAs may not only lead to duplication and inefficient use of resources but also failure to draw on existing firm strengths that have given SH a strong reputation globally. While there is general agreement on the potential value of transferring such FSAs, numerous challenges appear in the transfer process. In strategy literature, difficulties transferring FSAs is often referred to as “sticky knowledge”. Stickiness, or barriers to successful transfer, can arise within the recipient, source or even the transfer process itself. Examples of stickiness identified in previous research include lack of motivation or recognition of complementary expertise by the recipient, a lack of credibility or priority from the source, and contextual characteristics of the transfer process such as an arduous relationship between the source and recipient or a lacking focus on the necessary facilitation of transfer processes (Szulanski, 2003).

In many situations, the transferred FSA also needs to be recombined with local resources to ensure value creation in the local context. The need to make adjustments to transferred FSAs or adding local knowledge does not in any way diminish the need or value of such transferrable FSAs. Prior research has actually shown that recombination abilities are often the “highest order” FSAs that lead firms to sustainable competitive advantage (Verbeke, 2009). Many multinationals fail to recognize the need to build on their transferrable FSAs by adjusting the knowledge and/or processes to local needs. A failure to recognize the need for recombination can reduce the potential value of the transferred FSA.

4.2 A local focus emphasizing non-transferrable FSAs

Examples of non-transferrable FSAs in SH Canada include specific environmental challenges related to water and land use, local business networks, relations to local aboriginal communities, knowledge of and relations to the local regulatory environment, and specific technological challenges such as production methods (steam assisted gravity drainage, SAGD) and local drilling practices.

On the environmental side, there are some location-specific issues such as the use of water and land that are critical in the Canadian context but not necessarily an issue in other geographical areas or headquarters. While climate issues are important on a global scale, water issues are very local for Alberta and Canada. Oil sands production demands large quantities of water that has in the industry traditionally been drawn from the Athabasca River. The limited supply of water has become a critical concern with the

growth of oil sands activities and continued technological development to recycle and reduce water usage is critical. Successfully addressing local environmental issues is important for regulatory approvals and public opinion and directly affects technology development within heavy oil.

Establishing and maintaining local business networks are also an area of strategic importance. Often times, people conduct business differently across geographical areas where local knowledge and networks are critical. SH Canada does have the advantage of established NAOSC networks and Hydro's previous presence in the Canadian market but the Canadian organization has grown substantially while entering a new project development phase requiring new types of decisions. Good relations to local aboriginal communities have also been stated as one of the key local challenges for SH Canada. This naturally requires local knowledge and insight in to the local history and current concerns of aboriginal communities. Similarly, specific local regulations and taxation schemes (e.g. royalty issue) are very local in nature. Although SH can draw on experiences from Norway or other geographical regions, influencing policy and understanding the impact on SHs operations requires significant levels of local insight.

There are also numerous areas where the local external environment differs to such a degree that operations that are otherwise seemingly similar across geographical distances warrant specific technology or "ways of doing things". Examples of this include SAGD technology that is developed in Canada for heavy oil development, where technology and techniques differ vastly from conventional oil development. Although the fundamentals of drilling may seem very transferrable across borders, the local Albertan "way of doing things" in the oil sands differs vastly from conventional offshore activities. In the Canadian oil sands, a large number of wells are drilled in a short period of time in the winter during extremely low temperatures where ice roads are created for the specific purpose of transporting and supporting the drilling rigs. Succeeding with a tight drilling program under such particular conditions requires strong local expertise and knowledge.

4.3 Combining a global and local strategy

Existing research often refer to firms that have dual focus as transnational firms. In transnational firms, the roles of foreign subsidiaries vary where some foreign subsidiaries are receptive (R), others autonomous (A) and a few are identified as centers of Excellence (CoE). While diversity in foreign units are indeed recognized in such multinationals, the roles of the foreign subsidiaries are assumed to vary across foreign subsidiaries rather than within each foreign subsidiary, as illustrated in Figure 3 below.

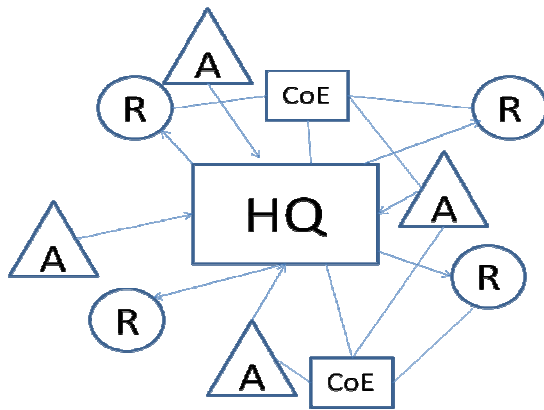


Figure 3: A transnational firm emphasizing both global integration and local adaptation. A = autonomous, R= receptive, CoE= Center of Excellence, HQ= headquarters.

Research shows that few firms actually function as transnationals due to the high levels of strategic coordination required to succeed. Many firms instead attempt to pursue an overarching focus on integrating activities at the potential expense of not recognizing or encouraging valuable subsidiary initiatives or a focus on local responsiveness at the potential expense of duplicating activities across organizational units.

Looking at SH Canada, we can see some similarities to the transnational organization. A global mandate for heavy oil technology has been located in Canada¹, representing a Center of Excellence (CoE). The technology center for heavy oil in Canada represents a CoE as it will focus on developing technology for local needs while simultaneously transfer knowledge across borders and thus contribute to competence development within heavy oil technology across organizational and national boundaries. Several location-specific challenges have been identified that require very local resources (representing the “A”) related to for instance relations to aboriginal communities, SAGD production and water challenges. Similarly, added value in transferring FSAs (representing the “R”) are identified in areas such as procurement, project management and HSE.

Upon further investigation, however, the interviews suggest that SH Canada does not necessarily fit with the description of a transnational firm as the organization has identified the need to combine several roles within the same organizational unit, even several roles within the same functional areas. The combination of roles within SH Canada increases the control and coordination complexities of headquarters. One of the most common management pitfalls in multinationals is treating all foreign units the same, while their needs and challenges may vary significantly. As such, SH Canada cannot be viewed as either predominantly receptive, autonomous or a COE in the larger

¹ The technology center for heavy oil is not a formal part of SH Canada but co-located and relies on close interaction to successfully address the technological challenges in Canada.

organization but rather a combination of several roles both within the Canadian unit as a whole as well as within individual functional areas, as illustrated in Figures 4a and 4b.

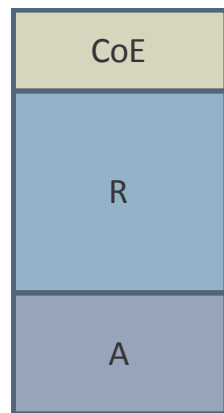


Figure 4a: Combined roles in SH Canada

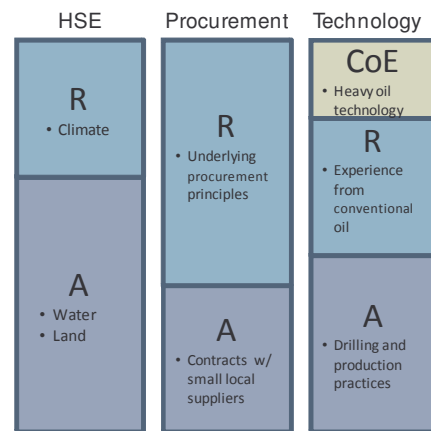


Figure 4b: Examples of combined roles within functional areas in SH Canada

For SH Canada, it becomes important that local expertise and experience is prioritized in areas that require location-specific FSAs (reflecting “A” in the above figures). It is often challenging for multinationals to determine which expertise and experience to draw on when individuals at headquarters (or other organizational units) and individuals locally (i.e. SH Canada) have equally strong backgrounds but one reflects the “company way” of doing things and the other a “local way” of doing things. Many firms adopt a matrix organizational structure to foster recombination capabilities between the “company way” and “local way”. The matrix structure is believed to enhance a firm’s ability to combine a “dual” focus on local and global needs and better enable transfer of FSAs (Bartlett & Ghoshal, 1990; Sy & D’Annunzio, 2005)². StatoilHydro’s overall organizational structure should thus fit well with SH Canada’s need to recombine FSAs, even in areas where FSAs initially appear very transferrable. As mentioned, there are numerous challenges with the successful implementation of a matrix structure. The key challenges identified in the interviews are discussed below.

5 Current challenges in SH Canada related to combining a global and local focus

Some of the key challenges to combine the necessary global and local focus in SH Canada seem to be primarily related to the following areas:

² Despite the many benefits of matrix structures, common challenges have also been identified such as unclear roles and responsibilities and ambiguous decision making (Sy & D’Annunzio, 2005).

- The need to recombine transferrable FSAs with location-specific FSAs to add value in the Canadian context.
- Shifting the mindset in SH Canada to a process-oriented multinational.
- Securing that resources are prioritized to balance global and local pressures.
- Identifying and addressing potential unintentional communication barriers.

5.1 The need to recombine transferrable FSAs with location-specific FSAs

Some FSA are in principle highly valuable across borders but may require some degree of recombination with location-specific FSAs to truly add value in a local context. By recombination, I mean adjustments to fit the local context based on local knowledge of the particular needs and challenges in a specific location. Procurement processes are an example of this where the current procedures are based on extensive experience and insights from the North Sea that are intended to secure a global professional approach to procurement that reflects company values and ethics. As such, underlying procurement principles, practices and procedures are initially readily transferrable FSAs. One of the challenges, however, is that the conditions and regulations in the North Sea where SHs procurement procedures originate reflect large monetary values and technical complexities. Several activities in the Canadian oil sands, however, involve smaller (one-person) entrepreneurial firms in local aboriginal communities such as the procurement of water truck services to generate the ice roads for drilling rigs. Using the same procurement procedures that are developed for multi-million dollar North Sea contracts for the entrepreneurial firm in a local aboriginal community in Canada depletes the potential value of this FSA, thus requiring a recombination ability of the underlying procurement principles with local knowledge and insight to generate value in the Canadian context.

For SH Canada, it seems particularly important to recombine for instance procurement processes to align with local ways of doing business and foster important local relations with aboriginal communities. The need to recombine such knowledge in relation to procurement processes is particularly important in the Canadian context as the local oil and gas industry consists of many smaller actors (both operators and suppliers). A failure to adjust the procedures to the local context can cause SH Canada to fail to reach its strategic goal of building constructive relationships with local aboriginal communities and maintain its reputation as a preferred business partner.

Similarly other initially transferrable FSAs such as the company-wide management systems and ERP system (SAP) that are deemed critical for SOX compliance may also require some degree of recombination with location-specific FSAs to add value in the local context. It is important to note that this recombination of the basic transferrable FSA with location-specific knowledge should merely adjust the FSA sufficiently to add value locally, rather than change the underlying principles of the resources transferred.

5.2 Shifting the mindset in SH Canada to a process-oriented multinational

One of the main challenges in SH Canada is the shift from a smaller local entrepreneurial firm with quick decision making to a process-oriented multinational where the decision making timeline is longer with more people involved from geographically distant locations. The current matrix organization is by some perceived as very process oriented with “consensus oriented” decision making that requires involvement of too many people.

There is strong support in management research for structured control and coordination processes to ensure quality, consistency and transparency in larger scale operations. The use of matrix structures is further suggested for organizations that need both a global and local focus (Bartlett, Ghoshal & Birkinshaw, 2004; Hill, 2008). As such, the intentions behind the matrix organization are strongly rooted in empirical evidence from other multinationals, but the practical implementation of the organizational structure leads to challenges on a daily basis. The main issues that arise due to this organizational shift are related to the following:

- Is the change rooted in national differences versus differences in firm characteristics?
- Is decision making consensus oriented or ensuring that relevant sources of transferrable FSAs are tapped into?

5.2.1 Is the change rooted in national differences versus differences in firm characteristics?

There seems to be some dissidence in SH Canada as to whether the strong process-emphasis is a characteristic of Norwegian culture or merely a difference in large multinationals versus small entrepreneurial firms. Research on national differences does identify some notable national differences that can lead to management differences. Nordic European countries (including Norway) have been found to have higher levels of “institutional collectivism” while countries in the Anglo cluster (including Canada) are more performance oriented (Chhokar, Brodbeck & House, 2008). There are conflicting results, however, in research examining how national cultures impact organizational cultures, suggesting that national cultures may not be as influential on organizational culture as initially believed (Gerhart, 2009). Interestingly, previous employees from Statoil and Hydro do not recognize the current organization either and have also experience some challenges in adapting to the larger organizational structure and processes. This suggests that the difference may be less at least partially related to firm characteristics rather than national culture.

For many Canadians³, the organizational change has definitely been perceived as greater than for previous Statoil or Hydro employees. This has led to some attrition of previous NAOSC personnel, due to personal preferences of working for a smaller less process-oriented entrepreneurial firm⁴. Despite some frustrations around the changes, there seems to be overall high levels of acceptance that with such high investment levels and complex large scale development project moving forward, increased control and coordination efforts are valuable. Many people who were previously in NAOSC also have previous experience from other process-oriented multinationals.

Strengths mentioned of this organizational shift include the availability of more resources, not just from a central team but from many areas of the organization. The international strategy has also been more defined and clearly communicated. There has been a proactive effort to invest in and involve the foreign subsidiaries in strategy discussions and cross-border network meetings. Top management at headquarters has been actively involved and attended these meetings, which is positively acknowledged by several respondents.

The decision making processes are often mentioned as one of the areas where the Canadian organization has changed most visibly. For some, the current decision making process is perceived as highly “consensus oriented” which in many ways is believed to reflect a Norwegian culture. Shifting from an organization where a decision could quickly be made one-on-one to long discussion involving a large management group and headquarter involvement has seemingly created some frustration in the Canadian organization. There are varied opinions internally in SH Canada, however, as to whether the decision-making process is consensus oriented or not.

5.2.2 Is decision making consensus oriented or ensuring that relevant sources of transferrable FSAs are tapped into?

One of the fundamental characteristics of a matrix structure is involving multiple organizational units in the decision making processes. The aim of a matrix structure is thus not to reach a “consensus” but rather ensure that all relevant knowledge and expertise is “tapped into” to reach a sound decision.

In management literature, a matrix organization is frequently referred to as a mindset rather than an organizational structure. In order to function properly, the matrix organizational structure needs a supporting culture and commonly accepted frame of mind that emphasizes openness and shared problem solving (Bartlett and Ghoshal, 1990; Donaldson 2001). Previous research suggests that firms with matrix structures typically experience numerous implementation challenges such as ambiguous decision making, unclear roles and responsibilities, and internal politicizing. Firms that have managed to improve performance by using a matrix structure were typically

3 The terminology Canadians is used very broadly for any SH Canada employees that did not previously have a background from Statoil or Hydro.

4 Attrition rates of previous NAOSC personnel is generally perceived as low.

characterized by a culture of adaptiveness and accepting some degree of ambiguity (Kuprenas, 2003; Sy & D'Annunzio, 2005).

One of the key challenges with the matrix structure is naturally how to ensure that you tap into the right knowledge and expertise. There is no pre-existing formula for how to secure this and perceptions of individuals in SH Canada seem to vary significantly. One of the approaches used that has created frustration for some individuals, is allowing for a lengthy discussion and input from all areas of the larger organization that are directly or indirectly represented in meetings. Compared to an entrepreneurial business culture, this decision-making process is much lengthier where all input does not necessarily visibly add value to the final decision. This has been perceived as overly “consensus-oriented” by some meeting participants.

Adding to the frustration of a more “consensus oriented” organization, several respondents have commented on the acceptance in SH of voicing disagreement after a decision has been made⁵. This issue relates back to the previous question of national differences or differences in organizational characteristics. During the interviews, several people in SH Canada have identified that voicing disagreement after a decision has been reached seems common and acceptable in the SH culture. Such behavior is believed to differ greatly from the typical Canadian business culture where individuals either accept the decision or change jobs. The local heritage of SH Canada culture opens up for voicing your opinion during the discussion, but not continuously second guessing decisions. This cultural difference (whether organization or national) seems to greatly intensify the frustrations over adapting to the matrix mindset as individuals not only need to accept the lengthier and involved decision making but also face continuous discussions second guessing the decision that has already been reached.

5.3 Securing that resources are prioritized to balance global and local pressures

Facing pressures to focus on local and global issues simultaneously requires involvement and continuous attention. This can create challenges particularly related to resources available to address both. To exemplify, SH Canada spends a lot of its time and effort on implementing global management systems. While these management systems are commonly accepted as important and useful, the implementation of them in the foreign units tie up resources that may also be required for influencing local environmental policy and long term strategic thinking, for instance related to local environmental challenges.

Tapping into the right internal corporate networks to ensure sound decisions requires significant time and effort from SH Canada. After the acquisition of NAOSC, a number of expats have been transferred to SH Canada that open up connections to existing internal networks. Although the benefits of internal networks are clear, expats also need

⁵ This is directed at SH in general, not SH Canada in particular.

to become embedded in the local business community and “ways of doing things”. While the use of expat managers secures transfer of important FSAs and vital bridges to internal networks, expats are also at an initial disadvantage locally by not having sufficient local external networks in Canada. There is furthermore a clear exposure to a potential lack of continuity once an expat leaves again. The focus on continuity will be of increasing importance for SH Canada to ensure sufficient location-specific FSAs and being successfully embedded in the local business community.

Related to challenges of efficiently using available resources is the potential impact of the way people communicate. Cross cultural differences often create communication challenges in multinational organizations and may at times affect the ability to successfully transfer FSAs.

5.4 Identifying and addressing potential unintentional communication barriers

Although there is generally a strong mutual respect of the different cultures and recognition of many areas of similarities between Canada and Norway, part of the challenges with successful transfer of FSAs between headquarters and SH Canada seems to be related to cross-cultural communication issues. Differences in language and communication styles may not only affect the common understanding of what is communicated but also the motivation to absorb and receive information (Szulanski, 2003).

One of the most obvious communication challenges is the eight hour difference in time zones. On one hand, that can create efficient use of resources where individuals and groups can work sequentially on a given task. On the other hand, direct communication is more difficult as Norwegians often leave the office before Canadians arrive in their office. Cross-border telephone meetings are thus often set at very early hours for Canadians, which can pose practical challenges in terms of traffic and family obligations. Some have also experienced difficulties in reaching units with specific competence when needed, due to time differences. This may lead to less incentive to tap into existing resources at headquarters merely due to the practical obstacles of connecting quickly.

Another issue that may unintentionally affect the motivation of SH Canada to receive transferrable FSAs are the subtle language differences. The Norwegian style of communication is at times perceived by Canadians as more blunt. Although the intention from the source (Norwegian) is undoubtedly not negative, the recipient must at times remind him or herself that the message is not intentionally rude but rather rooted in a different language and communication style. This perceived bluntness surfaces in both written and oral communication.

In management literature, distance is viewed along many dimensions such as cultural, administrative, geographic and economic (Ghemawat, 2007). One of the main challenges arises when many of these dimensions are fairly similar and the organization consequently underestimates the impact of a factor along one of the dimensions, such as subtle language differences. In line with many other firms studied, Canada and Norway

have similarities across so many of the cultural distances that the perceived distance is low, reducing the focus and attention on areas where distances (such as language differences) may indeed create unintentional tension in the organization. A negative outcome can be reduced transfer of FSAs due to communication barriers.

6 Summary and discussion of managerial implications

The general perception is that the overall experience of the integration of the three companies in SH Canada has been positive. SH Canada has managed to retain many individuals from NAOSC through various incentives, continuous investment in people, the opportunity to engage in challenging activities through the large capital investments, and the attractiveness of SHs corporate values. The integrated firm has experienced benefits related to increased space of action and increased capacity to act. The main benefit related to increased efficiency has been the ability to retain local competence and expertise. The integration process in SH Canada (the oil sands activities in particular) differs markedly from corporate SH in the transition from a smaller entrepreneurial organization to a process oriented multinational. The main challenges experienced by SH Canada, as listed in Table 1, are related to the dual pressures for global and local strategies, the shift to a process-oriented organization with the accompanying matrix organizational structure, pressure on the available resources to maintain both a local and global focus, and potential cross-border communication barriers.

	How has the merger contributed to:	Current challenges that can inhibit synergy realization:
Increased space of action	Financial resources Entry to new market Clear international strategy Large combined pool of resources	
Increased capacity to act	Financial resources Local competence and expertise	Unclear roles and responsibilities Overlapping competencies and expertise Ability to recombine transferrable resources
Increased efficiency	Low attrition	Slow decision making Matrix structure Communication barriers

Table 1. A Summary of integration effects and potential challenges identified in the interviews.

The findings have several managerial implications. It is important to note, however, that this data was collected as part of an ongoing research project that will be further analyzed as more data is collected. One of the main local challenges in SH Canada is related to the matrix mindset and acceptance of greater involvement in decision making

and ambiguity of roles and responsibilities. This is a common challenge for firms that adopt matrix structures. Research shows, however, that despite common implementation problems, the performance of operating under matrix structures is still likely to improve in situations with pressures for dual focus (Kuprenas, 2003). It is vital to continue focusing on building an organizational culture that fosters acceptance of some ambiguity and enables high levels of communication and transfer of resources (FSAs) across organizational and national boundaries. SH has already actively engaged in such activities, which require continuous management attention both locally and at a corporate level.

SH Canada experiences dual pressures for local and global approaches within several functional areas. It is thus not a question if SH Canada should primarily focus on developing and utilizing global or local FSAs but rather how to best combine the two within the various functional areas. From a headquarter perspective, synergies and internal efficiencies are sought by transferring FSAs to the various geographical areas. The interviews suggest that the full value of many transferrable FSA is only achieved by adding a local component to the transferred FSA (e.g. recombination ability). This is particularly important for areas such as G&G, procurement of services from smaller local suppliers, oil sands production methods and drilling practices. One of the most critical aspects for SH Canada is thus to ensure a strong local competence that develops a recombination ability by securing continuity in local personnel. Hence, key local personnel not only need to develop a strong local knowledge and networks but also the ability to successfully tap into the internal corporate networks. Expats play a vital role in developing this recombination ability as they bridge the local and corporate networks. It is important, however, to ensure that the recombination ability is embedded in the local organization where the role of the expat diminishes over time.

Subtle communication barriers may at times create challenges, or “stickiness”, in the transfer of FSAs. They can influence the motivation of the recipient, priority and attention given by source as well as the transfer process in itself. Many multinationals underestimate cultural differences, particularly if there are many similarities between the countries (Ghemawat, 2007). Identifying and discussing subtle language and communication differences can enhance the cross-border communication and help support the successful transfer of FSAs.

There are also areas where issues are primarily local and the development and utilization of location-specific FSAs are most important, such as the local challenges related to water and land use. One of the criteria for succeeding with this is to ensure that global issues and focus on transferrable FSAs do not overshadow the need to prioritize location-specific challenges. In SH Canada, as typical after mergers, the transferrable FSAs have demanded much attention and resource priority, constraining the local organization from focusing on location-specific issues.

7 Suggestions for moving forward

This report is based on interviews with managers and has given initial insight into some of the issues and challenges facing SH Canada. As the organization is constantly evolving, shorter follow-up conversations with some of the participants is suggested to capture potential changes in the past months. It is also recommended that a number of non-managers are interviewed to probe deeper into how individuals working on specific tasks actually tap into the internal networks and/or develop local FSAs. The suggestion of interviewing non-managers has already been proposed for SH Canada with a positive response but was not initiated until all existing data was properly analyzed.

The following areas will be emphasized in suggested upcoming interviews with non-managers:

- How specifically does the Canadian unit draw on competences and resources in other parts of the multinational? (identifying examples for in-depth understanding)
- How specifically are the resources or competencies transferred? (identifying examples for in-depth understanding)
- How does SH Canada attempt to secure continuity of competence and experience locally when expats leave after a number of years?
 - A sub-topic of this is the potential conflict of interest with the parent organization that may see benefits in using expats more actively to secure that the knowledge stays within the organization because of the generally higher turnover rates in Canadian businesses.
- How does SH Canada “know” or secure that they have tapped into the right parts of the organization?
- Clarify areas that need particular local focus on the development and use of FSAs.

The additional data collection should, if possible, be collected in September and October of 2009.

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