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The Merger of Statoil and Hydro Oil & Energy

Managing the integration process

by

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The Merger of Statoil and Hydro Oil and Energy

On October 1, 2007 two of Norway's biggest and most powerful businesses, Statoil and Hydro joined forces to become StatoilHydro. Separately, Statoil and Hydro had been important players in the Norwegian oil industry, with strong and proud traditions of expertise and innovation reaching back to the early 1970s. Both Statoil and Hydro have influenced Norway's development into a modern industrial nation. Today, Norway is not only one of the largest petroleum exporters in the world, but also a testing ground for technology development. The merger between Statoil and Hydro oil and energy has allowed for the giants to combine competence and superior technology as well as leverage the value created from implementing best practices from each respective player. Moreover, the merger has secured a financial solidity, and has increased their combined ability to take on risk in global business development. Shortly after the official merger date, the new organization was listed on the Oslo Stock Exchange and the New York Stock Exchange with a market capitalization of NOK500 billion. This is equivalent to a value of U.S. \$98 billion.

The transaction involved a \$30 billion share swap, and created an even strong competitor for oil majors such as Exxon Mobil, Royal Dutch Shell, Chevron Texaco, Total and BP. Please refer to Exhibit 5 for an overview of the competitive situation and the industry landscape. The new StatoilHydro has a combined estimated production of 1.9 MMboe per day (million barrels of oil equivalent) and proved reserves estimated at 6.3 billion barrels of oil equivalent. As the dominant party in a horizontal merger, Statoil's shareholders would own 67.3% of the new company, and Hydro shareholders would own 32.7%. The Norwegian government, which now owns 71% of Statoil and 44% of Hydro, would own 67% of the combined company.

Among the strategic goals for the merger is the creation of a leading international energy company with its base in Norway. Additionally, the merger will allow for more effective and safe operations, better resource use and overall growth in the international oil and energy environment as well as development of future energy sources. The merger of Norway's Statoil and the oil and energy division of Norsk Hydro will create the world's largest offshore oil and energy company, and it is expected to give the company significantly more power in developing international deepwater assets. Together, Statoil and Hydro have reputations for using cutting-edge offshore technology and combined, the new company would easily eclipse any other global offshore operator. Almost double the size of second-place offshore operator Shell and well ahead of Brazil's Petrobras, the merger had also given them considerable power for continued

international growth. The financial and benchmark graphs in exhibit 4 reflect the combined development of StatoilHydro from a 2005 starting point.

Since the October 1, 2007 date, the merged business has grown from investments and acquisitions which include the acquisitions of oil sands leases in Canada in 2007 and the acquisition of the remaining share in the Peregrino field in Brazil in 2008. Additionally, StatoilHydro has been invited to participate in the Shtokman Development AG with a share of 24%. The Shtokman development is a natural gas field located in the Barents Sea in central Russia. Most recently, StatoilHydro has also signed a strategic agreement to jointly explore unconventional gas opportunities worldwide with Chesapeake Energy Corporation, the largest US producer of natural gas. Following this transaction, StatoilHydro acquired an initial 32.5% interest in Chesapeake's Marcellus shale gas acreage in the Appalachia region of the northeastern USA.

Discussion Question:

1. What were the merger goals?
2. What are the implications and potential challenges of the merger
 - a. For the Norwegian Continental Shelf and the national industry structure?
 - b. For the companies international activity and the global oil and energy industry?

Company Backgrounds

Hydro was established in 1905 as Norsk Hydro-Elektrisk Kvælstofaktieselskab with the goal of producing nitrogen-based mineral fertilizer. The company pursued activities in fertilizers and metals until the late 1960s until a surprising discovery in the Ekofisk field put oil on the Norwegian, and Norsk Hydro radar. Hydro participated in the discovery of the Ekofisk field in the late 1960's early 1970's. As the company evolved into a modern post-war industrial conglomerate, by the 1970's it had new business areas in plastics, petroleum and metals (aluminum production). Hydro had reached international expansion in all its business segments by the 1970's. The 1990's were also a good decade for Norsk Hydro, as they expanded successfully further into petroleum production and aluminum where they continued to grow and evolve until 2005. Despite its growth and successes over the decades, the millennium marked a new beginning for Hydro as management began reducing the company's range of activity by divesting its historic fertilizer and industrial gas businesses into an independent company, Yara International. In 2007 Norsk Hydro merged its oil and energy operations with Statoil to create StatoilHydro. At the time of the merger, Hydro operated 13 oil and gas fields on the Norwegian Continental Shelf. The merger allowed

Norsk Hydro a special focus on its now core aluminum business, thus making it a global, integrated aluminum company.

Statoil, originally named “Den Norske Stats Oljeselskap A/S” was founded in 1972 as a private limited company owned by the Norwegian State. As such, the company's role was to be the government's commercial instrument in the development of the oil and energy industry in Norway. Statoil's history of involvement in the oil industry began in 1972 with the discovery of the significant Statfjord field which was put into production in 1979. In 1981 Statoil was the first Norwegian company to acquire operator rights on the Norwegian Continental Shelf (Gullfaks field). In the 1980s, both Statoil and Hydro became major players in the European gas market by obtaining large sales contracts for the development and operation of gas transport systems and terminals. Later in the same decade, Statoil became heavily focussed on developing their downstream manufacturing and marketing activities in Scandinavia, where they managed to establish a comprehensive network of service stations and did this by having acquired Esso's service stations, refineries and petrochemical facilities in Denmark and Sweden. Statoil was privatised in 2001 and subsequently listed on both the Oslo Børs and the New York Stock Exchange. At the same time its name was changed to Statoil ASA (StatoilHydro, 2007). At the time of the merger Statoil operated 29 oil and gas fields on the Norwegian Continental Shelf.

Discussion Question:

3. If anything, what can you infer about the ambitions and attitudes to change for each company based on their history?

Planning

While an organizational integration process consists of several stages, the first stage of planning and organizing the process is critical to the success of the merger and subsequent integration. Since the first stage of the integration process involves in-depth decisions about integration design and creation of a new and integrated organization, the establishment of integration principles, planning the actual integration process as well as identifying realistic ways of how to realize these goals, it is also critical that the delegation of this task goes to a group of experienced change agents. In this case, StatoilHydro's planning process was initiated by the appointment of an Integration Planning Team headed by Hilde Merete Aasheim who came from the Hydro side of the merger. The overall goal of the IPT has been to develop a model for cooperation and to ensure a joint approach towards key issues arising throughout the

integration planning process. As figure 1 shows, the construction of IPT itself is a central part of the collaboration model.

Prior to October 1, 2007 when the new and merged organization was put in place, an integration planning committee (IPC) headed by CEO Helge Lund had the overall formal responsibility. As shown in figure 1, IPT reported to IPC. IPT began its work immediately after the merger had been announced (late December, 2006) by appointing a bigger team of employee and management representatives from both Statoil and Hydro. IPT had 9 managers representing each organization, and together the 18 managers and 5 selected employee representatives that were on board developed guiding principles to be used in the integration process. Promising equal opportunities for all employees regardless of prior organizational affiliation, the decided guiding principles included "openness, timeliness, involvement and dialogue". Four specific integration decisions and principles that had been communicated at the time of the merger announcement would serve as a foundation for IPT's work. These are as follows:

- 1) Helge Lund (Statoil) would be the CEO for the merged entity while Eivind Reiten (CEO of Hydro) would lead the board of directors
- 2) The integration would be carried out based on values of equality between the two companies, and would hold equal possibilities for all employees regardless of originating company
- 3) The guidelines, control systems and structures of Statoil would be put in place in the new entity and;
- 4) The integration would draw on and take best practices from either company to create an overall improved company

Communication for employees was prioritized with the creation of an integration web intranet called *Entry*, a weekly newsletter from the IPT manager as well as other written materials. StatoilHydro and IPT wanted to ensure that their most valuable resources were kept up to date and involved. Key stakeholders: customers, investors, employees and job seekers, media, shareholders, and stock market analysts were also quickly involved as StatoilHydro had a new website operational from the first day of the merger- October 1, 2007. The new website allowed for all communication regarding the new company to be channelled in a user friendly and streamlined manner to promote StatoilHydro and allow the audience to shape their own opinions.

As of 2009, although the planning stage was well over, the IPT continued to manage and monitor the integration process from the top of the organization by encouraging implementation of the reorganization

throughout different levels and divisions within the organization and training middle managers in their important roles as change agents.

Below is a diagram showing the various committees and groups in the integration planning process.

Organization of the integration planning 2007

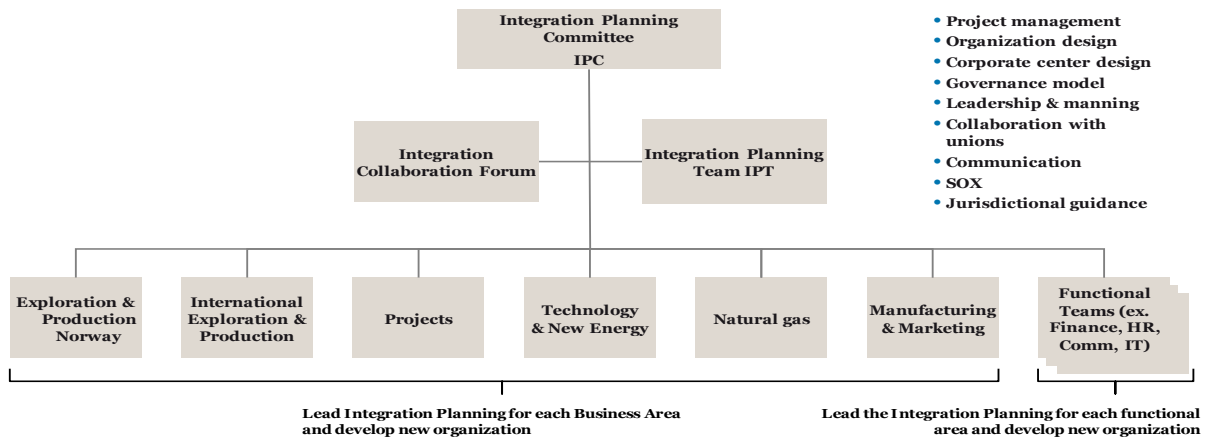


Figure 1: Organization of the integration planning

The integration process was divided into two main phases to ensure effectiveness and safety as well as to protect the day to day operations. Where phase one was to deal with the integration of all the various entities on land, phase two dealt with the integration of the remaining operational units on land as well as those offshore. The goals of both phases were overall process improvement such as focussed resource utilization and better training and development methods.

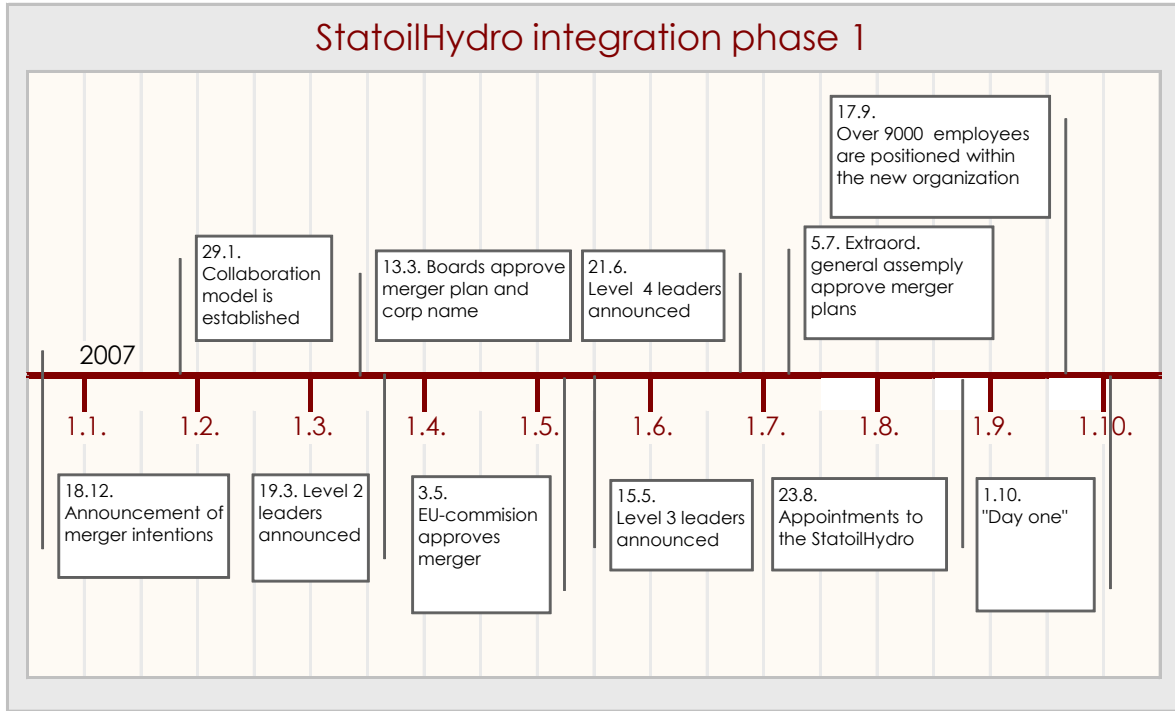


Figure 2: Time line (Gravdal & Svendsen, 2009)

Phase 2 of the integration took place in 2008 and 2009 and was organized in a similar manner, with IPT as responsible and a number of projects reporting to IPT for instance within EPN, M&M and NG. The different project groups worked out the organizational solutions for their business area. For instance, within EPN a project group worked out a new operational model during 2008 which was to be implemented in 2009. As the implementation date came closer, local implementation projects were established within each of the EPN divisions (such as Gullfaks, Staffjord etc). Hence the integration was organized in cascading projects, all ultimately reporting back to IPT.

Discussion Question:

4. How was the integration process organized? What are some alternative ways of organizing such processes? Discuss pros and cons of different ways of organizing an integration process.
5. Look closely at the third and fourth guidelines that were decided by the top management team upon announcement of the merger. How would you seek to mitigate the apparent contradiction to integrate the best practices from both while having the structure and control systems of the larger (and more dominant?) organization?

Integration phase 1: Design of a new and integrated organizational structure

In order to follow the principles of taking the best from both companies and equal treatment for all employees, IPT argued that a whole new organization needed to be created. All business areas and corporate staff were asked to develop proposals on a new organizational structure. IPT supervised, coordinated and aligned this input. Once the structure was in place, management positions as well as professional (and employee) positions required detailed job descriptions in terms of responsibilities and tasks. The number of people in each specific business area was also developed as a part of this process. See Exhibit 3 for new StatoilHydro hierarchy.

As per the new StatoilHydro management framework, there were six levels of management beginning with top management CEO level (Level 0; CEO Helge Lund). The management structure at StatoilHydro has top management ranging from Levels 0 to 2, middle management ranging from Levels 3-5 and employee levels ranging beyond the sixth level. All Level 4 management positions began being assigned as of May 2008, once the managers in levels 2 and 3 had already been appointed.

The focus of line management was on safe and efficient operation of their units in the demanding integration planning period, and all ongoing improvement activities in these units continued such that further improvement opportunities could be enabled with greater ease once the new company was fully established and operating.

Standardization of administrative and operational work processes

The standardization of work processes is common in horizontal mergers since the very definition of a

horizontal merger is “accumulating experience through merging common technology”. This implies merging work processes and best practices from the two merging entities.

Standardization of work processes is in many ways one of the most tangible effects of the StatoilHydro merger. With respect to the design of work processes area in the integration, there has been a strong emphasis on identification, improvement and standardization of work processes within the new company. “The aim is to identify best practice from the former Statoil and Hydro companies and apply it to achieve improvements” (Byrne, 2008: 35). The organization however has decided to approach best practice in a two-pronged approach; administrative work processes from one side, and operational work processes form another. Specific administrative and operational work processes are listed in Table 1; these can be very generally understood as phase 1 encompassing the activities on the left, and phase 2 encompassing activities on the right.

Table 1. Administrative and operational work processes of StatoilHydro

Administrative work process	Operational work processes
<ul style="list-style-type: none"> • Accounting and Control • Finance • Personnel • Health and Safety Environment (HSE) • Procurement and Supply • Information Technology and • Information Management 	<ul style="list-style-type: none"> • Exploration (Oil) • Reservoir • Drilling and Oil Well activities • Concept Development and Engineering • Operations and Maintenance • Marketing and Sales

The standardization of administrative routines in StatoilHydro took place during phase 1 and has gone very smoothly, as it has been quoted “*those who participated in the integration work last year showed a formidable ability to cooperate*”. Alternately, the standardization of the operative processes, and thus, the offshore processes for StatoilHydro has been taking place during 2008 and 2009 in what is referred to as integration phase 2.

As per the guidelines included in the merger agreement, Statoil's original administrative work processes and IT systems will be used. The move Beyond Budgeting that had been initiated in Statoil would also be adopted by the new and merged organization. This meant that budgets would be replaced by a new and integrated control system. In term of operational work processes, the ambition has been to draw on the best practices from both companies.

There has been a clear goal throughout the integration that the work processes (both administrative and operational) will be standardized and harmonized between units. The expected benefits of conducting business in this way are increased economies of scale, standardization gains, as well as identification and diffusion of best practice which results in reduced costs and increased effectiveness. Despite these positive effects, standardization can also be quite resource intensive and time consuming, for example in the development of joint standards and execution and training of new routines. Standardization also has the potential to temporarily reduce efficiency and production due to the learning curve, but also if it is met with resistance.

Localization issues

The integration and hence the growth of the company meant that challenges pertaining to geography and divisional locations would have to be targeted. As Statoil was the dominant partner, the corporate address of the merged entity was to remain in Stavanger.

Decisions regarding localization of the main functions started with the location of business areas and corporate staff, followed by appointing leaders for these areas. Three of leaders have ties with Hydro, and five with Statoil. During this process it was determined that business activity would be distributed between Stavanger, Bergen and Oslo. This reduced the need to move and/or manage across geographical boundaries. However, a number of leaders had to relocate in order to get their first priority of choice in terms of new positions.

The StatoilHydro merger agreement noted that the merged entity would build upon the organizational structure and guidance systems of Statoil. Thus in December 2007, the StatoilHydro business areas were delineated based on existing pre-merger business areas (as is noted in point 4.4 of the merger agreement). Four previously existing business areas would remain in new organization including Exploration and Production Norway, International Exploration and Production, Natural Gas, and Manufacturing and Marketing. The Technology and Projects area would be divided into two new independent areas,

Technology and New Energy, and Projects, and in addition, two new areas: Chief Financial Officer Area and Corporate Staffs and Services would be added to the organization (Falkum et al., 2008).

Over the coming integration period, almost all employees- on or offshore would experience that not only would their work tasks be subject to relocation, but they would have to share their work environments with new individuals and teams. For others still the changes would require moving altogether, or commuting during weekdays. Despite the top down encouragement to move or relocate, the governing principle of all StatoilHydro employees being promised a job remained. The section below describes how StatoilHydro dealt with the challenges of managing human resources in an environment when the number of overall positions and employees from the two companies was going to be reduced.

Employee positions- “Indicate interest” process

To further highlight the importance of the planning function of the IPT and the extent of planning prior to the official merging of the two companies in October 2007, it is helpful to describe the method by which personnel and the positioning of managers and professionals as well as resource surpluses were handled. In order to follow the governing principles originally outlined in the merger agreement of equal opportunities for all employees, all positions in the new and merged organization were open for all employees regardless of their previous organizational affiliation.

The staffing process used by the IPT was called “Indicate interest”. The indicate interest process was an attempt tackle “who gets what jobs” in a fair manner as employees have had to report interest in select positions. Each employee could indicate interest for two positions, and employees were asked to rank their preference. The process was first launched in June. In order for existing employees to re-apply for their positions or alternate positions, there had to be a need for competence and capacity within the specific business areas, the underlying functions had to have been defined, and the need had to have been quantified. Employees could be assessed against one another such that the most competent and qualified person can get the job without falling subject to company biases. “All lost their jobs, but all had a guaranteed new job” (Falkum et al., 2008). Eighty five percent of employees who had selected a certain position got their first or second priority through this process. With approximately 13,000 individuals (leaders and employees) requiring job placement within the new structure in phase 1, IPT established nine “Staffing Teams” consisting of a total of 140 members. Management had a clear ambition to fill positions

with a mix of employees from the two companies. Mixing a variety of competencies was expected to facilitate the transfer of best practices across units.

Just like the staffing of professional (and employee) positions, staffing of middle management positions (Levels 3 and 4 in the management hierarchy) was done by having managers apply for positions in the new organization. Although a challenging task, StatoilHydro stayed true to its principles of equality and fairness throughout the merger process. As one employee put it:

If no one was to lose their job, then all would have a position, and following the principle to take the best from both companies, we must therefore also make a new company where people from both Statoil and Hydro get new colleagues. We had to write out the whole company from new so as to be consistent with the principle regarding equality.

The selection of top management positions was executed prior to opening the main re-staffing process for all employees. As an obvious result of merging, there would be fewer management positions in the resulting joint entity than in the two previous companies. “A staff surplus of 2,400 people (employees and consultants) was identified during the planning process for the merger” (Bryne, 2008: 37). As just one method to reduce the amount of applicants for these positions, retirement packages for interested parties over 58 years of age. However, those who considered early retirement could hold their decision until they knew what their new position would be – making the positioning process all the more challenging for the staffing teams. The retirement packages constituted a way of facilitating mobility in the organization, but due to the low unemployment rates in Norway at the time and the consistent efforts to get people to stay longer in their jobs (beyond the traditional retirement age), the 58+ was also for some people a bit controversial. According to his interview published in the internal magazine *We*, EPN leader Tore Torvund elaborated on the retirement packages by saying:

The offer of early retirement for everyone aged 58 or above was one of several instruments chosen to tailor the organization to current and future requirements without undue impact. These instruments will also be deployed in the work on integration and restructuring for bases, land-based plants and offshore installations. (Bryne, 2008:37).

Despite the removal of individuals 58 years of age and over from the applicant pool, there were still 1300 internal applicants for the 400 management Level 3 positions available. Although this leads to a discussion of competence loss, knowledge transfer and the like, StatoilHydro recognizes the challenges streaming from it and has worked to minimize the disadvantages by extensive training programs.

Similarly, for management Level 4 there were 2800 internal applicants for 612 positions. In selection of the management team, it was necessary to have some managers move levels either upwards (through promotion) or downwards (through demotion) within the organization. Demotion and subsequent turnover is quite common in horizontal mergers, and it occurs for reasons attributed to higher complexity at the corporate level. Similarly at StatoilHydro, turnover can be expected to be higher among management than among employees.

Discussion Question:

6. What kinds of decisions need to be made in the planning phase of an integration? Look at the decisions that were made? What seems to be the basis and rationale behind the decisions?
7. Discuss the scope of the organizational changes that were triggered by the merger? Would these types of changes be necessary in general in mergers? Should additional changes have been made?
8. Discuss the integration process in relations to the management literature you have been exposed to. Do you think the IPT tackled the integration in a manner consistent with theoretical recommendations?
9. To what extent do you think the Scandinavian context and culture has influenced the decisions the integration model.

Middle Manager Involvement

As the first stage in the merger involves planning and organizing and is usually undertaken by a specifically selected team of top management, ranked first and second levels of management for StatoilHydro, the second and third stages in the merger integration rely on the implementation of these decisions made in the first stage. This is done by middle managers (levels 3 to 5 in StatoilHydro).

Since middle management takes on the critical role of change agent throughout the second and third stages of the merger process, there is a lot of pressure and expectation placed on this group. While it is assumed that middle managers across the board will possess at least some of these skills necessary for making the integration successful, some skills will be more prevalent than others. Preparing for this eventuality, StatoilHydro created a training program for its middle managers which dealt with identifying the skills most needed as a change agent.

In the first quarter of 2008, the concept of *Leader Support in Change* was launched and made public through various marketing methods although our key informant commented on the difficulty of increasing awareness and marketing the workshops to those middle managers they were intended for.

The training program for middle managers was restricted to those geographically located in Norway, and publication of this was done on the intranet “Entry” as well as through the inside magazine “We”. Online registration using Entry was opened April 1, 2008 to middle managers operating primarily in the phase 1 domains, and regarding the phase 2 domains, the key informant noted that the offshore employees would have their own offer through Exploration and Production Norway later on. IPT sponsored the project with Hilde Merete Aasheim and Dordi Høyvik at the top.

Returning to the important skills for middle managers to possess during the integration process, effective procedural and interpersonal skills, structure and coordination alongside good implementation of political skills are critical to offset any changes in productivity which may accompany changes in size of activity. These demands on middle managers come in the midst of a chaotic atmosphere of job redesign, and require middle managers to support their subordinates through both the stress associated with size redesign and mounting workloads. During standardization of work processes, communication skills are usually perceived to be the most important since there are large amounts of information being passed on from top management downwards through the organization since employees must know what affects them and how to progress in the new organization. Interpersonal skills are also critical at this time since middle managers must be aware employees are essentially relearning their jobs with new or modified processes and procedures. This period of learning can be an immensely frustrating time for employees and can contribute to loss of motivation and productivity.

The relevance of this uncertainty element within StatoilHydro integration to middle managers is clear. Middle managers had to support their subordinates but at the same time were unsure of the security of their own management positions within the new organization. Operating with this uncertainty for several months was trying for both groups, since neither the middle managers nor employees knew who would make up the new subordinate groups.

Discussion Question:

10. To what extent is middle management involvement necessary in such processes and how should middle managers (and the organization) prepare them for the integration.
11. What is the role of middle managers in implementing the changes? Linking back to the previous Question, what kinds of tasks would you expect that middle management needs to be prepared for?

Integration Phase2¹

Outside research and media reports have thus far indicated that the organizational integration that took place under phase 1 was quite successful. The second phase of the merger integration, involving the operational units, commenced in December of 2007. Breaking the integration into two phases early on in 2007 was done by the IPT to make the process more manageable. Recall that a central part of the integration had to do with mapping the best practices of Statoil and Hydro respectively, so that the process would be based on improvements overall and so that it would be perceived as fair by all employees. Despite fairness and equality being highly valued principles in StatoilHydro's merger integration and despite being valued highly by the organization overall, phase 2 showed that these ideals are extremely difficult to secure in practice. The paragraphs which follow identify some of the challenges that have surfaced in the second phase of the integration.

Employees in Exploration and Production Norway, the Natural Gas and Manufacturing and Marketing business areas were not significantly affected by the merger until phase 2. The new common operational model that was developed for EPN triggered a much more controversial process during phase 2 of the integration. Requiring very large changes in the naturally less flexible offshore areas, StatoilHydro experienced substantially more resistance to (what was perceived as) the more radical changes taking place during phase 2 than they perhaps expected from their experience with phase 1. Where employees had been able to influence the process through their union representatives throughout phase one, reports in the media indicate that although the same collaboration model was formally employed, with union representatives in IPT, employees experienced the merger integration process as dictatorial and unfair in phase two with the whole process having been lead from a small team in EPN with guidance from IPT.

¹ All of the information concerning phase two is from publicly available media sources.

The offshore organization is characterized by cultural and historical differences in work operations between platforms, which made acceptance of common processes, systems and procedures a challenging endeavour. Some also focused their frustration and resistance on the decision making processes rather than the actual decisions that had been made. As a result of the merger, the various unions also began to compete for members offshore, which made for a challenging situation between the union organizations.

Before the StatoilHydro merger, neither Statoil nor Hydro prescribed to any strictly standard way of day to day business in the offshore segment of the organization. Instead, all platforms and personnel followed idiosyncratic protocols due to contextual and historical differences. July 1, 2009 was the date StatoilHydro officially implemented the new process standardization and operational model offshore. This means that where prior to the StatoilHydro merger, integration between the platforms was low, after this date, all work on the Norwegian Continental Shelf will be organized according to the same organizational model and principles. The process for the reorganization and standardization changes is slated to take a year, ending in summer 2010.

The new StatoilHydro operational model implied that all platforms were subject to standardization of work processes as well as introducing increased flexibility among personnel to have them rotate between installations. Among the changes that come with standardization of work processes are removing or significantly altering the individual work methods and platform cultures that exist. The staffing process (a new signal-interest process) will mean new managers for many, new colleagues, new work rules and regulations, it also means that some of the over 5000 employees working offshore will have to move platforms, while others will be serving and working on several platforms.

The goal of the standardization is to make offshore activities safer and more efficient. Not only by making the Statoil and Hydro platforms more like but by standardizing *all* platforms could StatoilHydro ensure a more safe, secure and effective workplace for all involved. The high degree of contracted workers (non-StatoilHydro employees) that perform tasks on a number of platforms accentuates the importance of streamlining work if possible. While some of the standardization can be attributed to the desire to integrate cultures for the new StatoilHydro, the most important thing was to bring all platforms, managers and employees back onto the same page. Sceptics of the standardization criticize the move and say that it is easy to believe that things can be made the same everywhere, however when no platform is alike, it can take substantial training to get them into the swing of day to day operations. There is fear and worry among the offshore staff that the ambition for standardization will be prioritized over safety.

The new operational model has set tempers a boil among the employees and the standardization and integration of work processes and platforms has been fraught with resistance, and discontent. According to the Stavanger Aftenblad, they believe their needs have not been catered to, their voices have not been heard and are overall dissatisfied with the operational model chosen. Despite their displeasure, management insists they listened to the concerns of the offshore employees in creating the new model and used the summer of 2008 to iron out the details of the offshore integration model. The feedback from five quarterly work environment surveys (Integration Monitoring Survey) completed throughout the merger integration process (all administered by StatoilHydro) it is clear that the employees working offshore have at least temporarily lost trust in management, and they are not convinced that the information they receive is open and honest.

Top and middle management have set off to tackle this dissatisfaction and slight foot dragging by explaining to their best abilities why they have chosen exactly this model. Management is doing their best according to the circumstances of this being the biggest offshore reorganization ever to take place. It is an enormous task and StatoilHydro has set a precedent; and whenever that happens it is bound to come with learning and trial by error.

In terms of the platform reorganization goal the original intent was to reassign some 30 % of the offshore employees to different platforms than the ones they currently work at. This redistribution was supposed to enhance a common StatoilHydro culture as well as it was supposed to redistribute the employees according to strength, and qualifications. Similar to the “indicate interest” process that was followed in Phase 1, the offshore employees had a chance to announce their interest to move platforms, however this with an added incentive of a 60, 000 kroner if they did. Approximately 70% expressed their interest in moving should there be appropriate circumstances for a voluntary reassignment. Of 520 individuals eligible for the 58+ early retirements, 330 have used this opportunity and retired. Although the indicate interest process offshore attracted even more mobility interest than expected, some employees argue that they had no choice and that they would otherwise be moved by force.

Discussion Questions:

12. Compare phase 2 with phase 1. Why does integration in some of the operational units play out so differently?
13. How would you handle the phase 2 integration (offshore) provided you were in top management or sitting in the IPT? If possible, draw on the theoretical tools and models.

Merger Goes International: StatoilHydro Canada

2007 was a year of great change for oil operations in Canada as well. Not only was the North American Oil Sands Corporation (NAOSC) acquired by StatoilHydro, but at the same time, the merger between the two Norwegian entities was officially underway creating a challenging atmosphere. According to StatoilHydro Canada, the biggest issues were not the integration between Statoil and Hydro, but rather, the integration between a “Canadian” entrepreneurial versus a “Norwegian” multinational. To name just a few, StatoilHydro Canada perceived challenges in decision making processes, headquarter involvement, systems and procedure execution.

As literature on international management asserts, firms growing “multinationally” will either want to focus on integrating activities across borders (global integration), or alternately, they will want to adapt to local needs. A common trade-off in cross cultural management, it is understood that the role of the foreign subsidiary will differ whether it is expected to transfer advantages, or develop those advantages. Those firms that are successful at a combination of global integration and local adaptation (at both transferring and developing firm specific advantages) will be recognized as holding a transnational strategy and will more often than not be developed as a center of excellence. This is the role that Canada holds since technology for heavy oil has been predominantly located here, and a center of excellence has been created as it focuses on developing technology for local needs while transferring heavy oil knowledge and competence across borders simultaneously.

To address the complexity of dealing with a hybrid combination of roles in the Canadian subsidiary (securing the successful transfer of firm specific advantages while simultaneously ensuring a local approach to strategic challenges), StatoilHydro adopted a matrix organization structure. The preferred organizational structure for organizations characterized by complex control and coordination issues. Below we will see how the implementation of a matrix organization did not always ease any HQ-Subsidiary challenges related to decision making processes, responsibility areas or cross border knowledge transfer.

Below we will discuss some specific “culture” challenges that the StatoilHydro merger encountered in its international context. The decision making processes are often mentioned as one of the main areas the Canadian subsidiary has changed most with the acquisition and merger activity. According to some employees in Canada, the current decision making process is perceived as “highly consensus oriented”, which many perceive to be a Norwegian culture trait. Indeed the Norwegian culture is characterized by

lower power distances and a greater focus on group based decision making, and this can support the consensus orientation that emerged post StatoilHydro Canada integration.

On a general level however, it is challenging for multinationals and their foreign subsidiaries alike to know what experience and competencies to draw on in terms of decision making when both parties have equally strong backgrounds, yet reflect different approaches and perspectives (local vs. company way). Where the matrix organization is designed to build local elements onto the existing company way, the decision making processes often becomes long, difficult and overly rigid. The rigidity arises from ensuring that the decisions are being made with the right information and expertise available, although ensuring that the right information and expertise has been consulted often involves allowing for lengthy discussion and input from all areas of the larger organization. Because in the case of StatoilHydro Canada, NAOOSC originally went from being entrepreneurial and small with a staff count of under 100, to part of a massive global oil player with StatoilHydro, the new decision making process was not seen by the Canadians as adding value. Furthermore, because of their apparent weaker position as having been acquired, Canadian managers mentioned feeling excluded from the decision making process.

Discussion Question:

14. How much of the consensus orientation do you attribute to changes following the merger and how much do you attribute to the Norwegian culture?
15. What role do you think internal networks play in decision making processes?

While the process and systems transfers were taking place with only minor glitches, the StatoilHydro Canada merger implementation had some more obvious hitches in the area of communication. Although there is a generally strong mutual respect between the Norwegian and Canadian cultures, part of the challenges within the firm specific advantages seemed to be related to cross cultural communication issues. Statoil and Hydro have very long proud histories rooted in Norway and while the Canadian culture is low power distance and relatively low context, it is still higher than Norway's. This posed problems when communicating both verbally and on paper because the Norwegian manner of communicating is simply more straightforward and blunt and can easily be misunderstood as rude or abrupt. Alternately, the Canadian manner of communicating has British influence, which makes the language used more elaborate and "polite".

For the StatoilHydro team in Canada, the problems with cross cultural teams were magnified when it came to business communication in the form of meetings. Team members coming from different nations and backgrounds place special demands on managers, and this requires sensitivity to language differences and nuances, business protocols and time zones. With listening skills being so much more critical when you don't have the benefit of face to face interactions, the effort is so much more demanding and important. Considering the 8 hour time difference between Norway and Alberta, meetings would not be possible to schedule during mutually conducive work hours. The Norwegian team would have to stay late, the Canadian team would have to come early, or there would be a little bit of both. Either way, someone always had to sacrifice. The Canadian team expressed their feelings about always having to come early and having to sacrifice family time as they felt they were doing more catering to the schedule than the Norwegians.

Discussion Question:

16. How could this problem of communication be resolved such that it was mutually beneficial?

Creating a Common Culture

As part of the guiding collaborative principles throughout the merger, the creation of a common StatoilHydro culture was critical. Since Statoil had been the dominant partner in the merger, a name change from the original Statoil ASA was deemed appropriate so that the Hydro employees would feel fairly treated. StatoilHydro was adopted temporarily while the search for a permanent name and new logo for the merged entity went on. In early 2009 a new logo and name were revealed to the general public. Much to everyone's surprise, the new name for the merged company was to be Statoil ASA, however the new logo would not retain any of its historic roots. (See exhibit 2).

The name change created a good deal of sensation in the public sphere and media, although within the company it has not seen the same extent of attention. In fact, the typical "us and they" behaviours that so often create fissures between merging entities have not been central theme in the StatoilHydro merger process because so much of phase 1 integration work was focussed on building a new workplace for both companies based on the best of both organizations. Furthermore, there is no documentation or data that indicates cultural differences or new name being an important barrier in the integration process.

While cultural differences between Statoil and Hydro haven't played important roles, there has been indication that during phase 2, talk of differences of a different kind surfaced. In Exploration and Production Norway, there has been a fair bit of back and forth regarding "differences between platforms." Interestingly enough, the platforms in question are not specifically earlier Statoil or Hydro platforms, but rather strong platforms that stand out in one way or another that center the discussion around how the new operational model will function in practice with so many different models joining in.

As goals of phases 1 and 2, the standardization of culture throughout the implementation and integration process was identified as a key challenge early on. To standardize while simultaneously attending to flexibility and being open to positive differences can mean that standardization is overlooked in favour of correcting perceived flaws (or vice versa). Although it is too early in the merger to detect any such occurrences, this is important for StatoilHydro to monitor over the coming years. Creating a common culture should also not be isolated to just the company cultures of Statoil and Hydro in Norway. Remembering that together the international footprint of the merged organization was over 40 countries large, it is important for the new organization to create a unilaterally accepted culture that is universal. Watching these developments will also be interesting over the near future.

Discussion Questions:

17. Would it be reasonable to allow the standardization of culture to be defined in a manner that allowed for local allowances and variations? Or would these local adjustments sacrifice the goal of standardization? (a) in the Norwegian offshore context? (b) in the international context?

18. As a final note on standardization, it can lead to the organization being locked in place and losing its ability to innovate. Does creating a common culture threaten the future long term capacity to change and innovate by focussing on standardization of processes, systems, and capabilities today?

Exhibit 1: Name change and new logo fall 2009



Exhibit 2: StatoilHydro Organizational chart as of August 2009

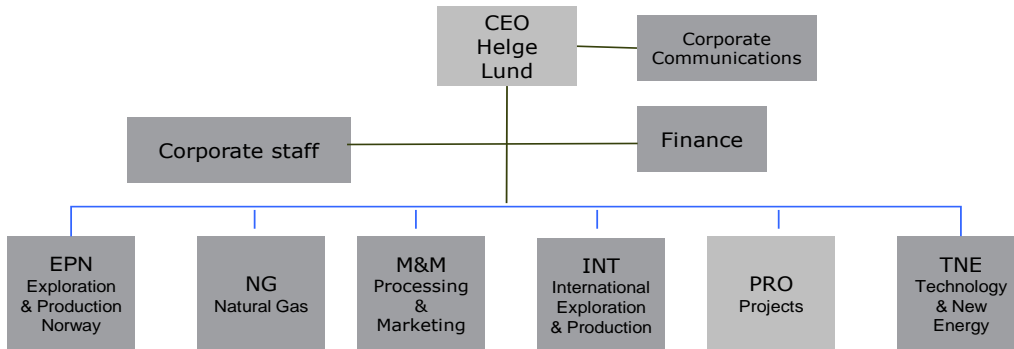
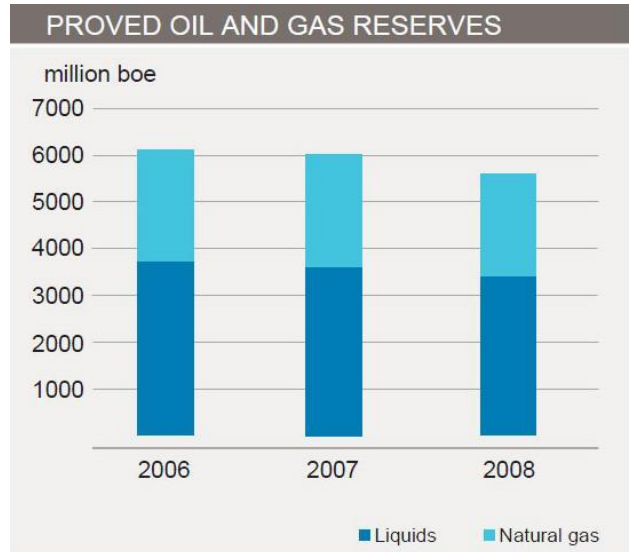
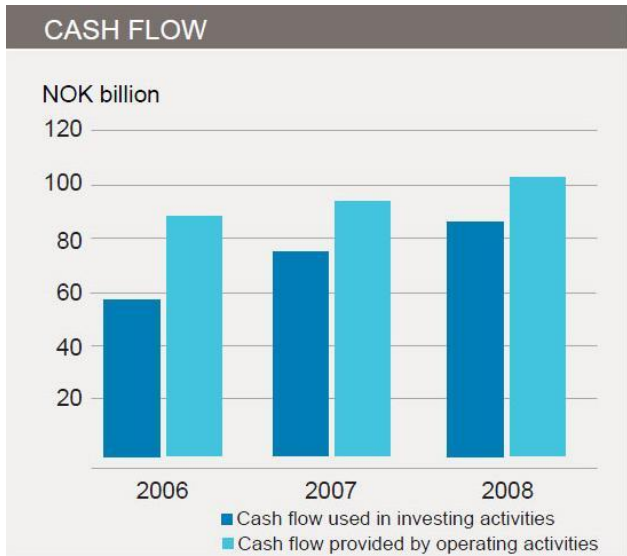
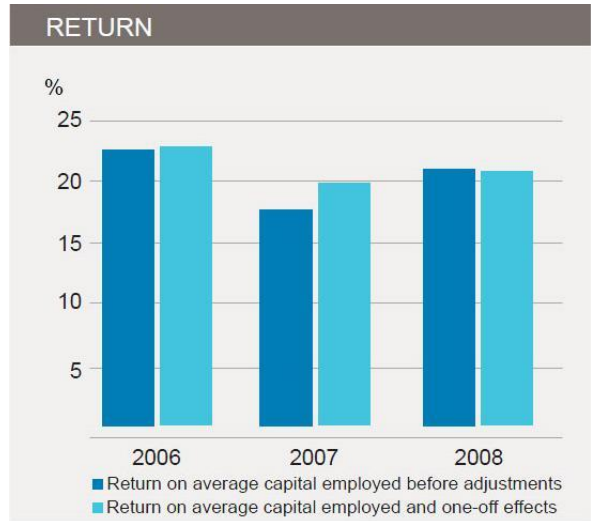
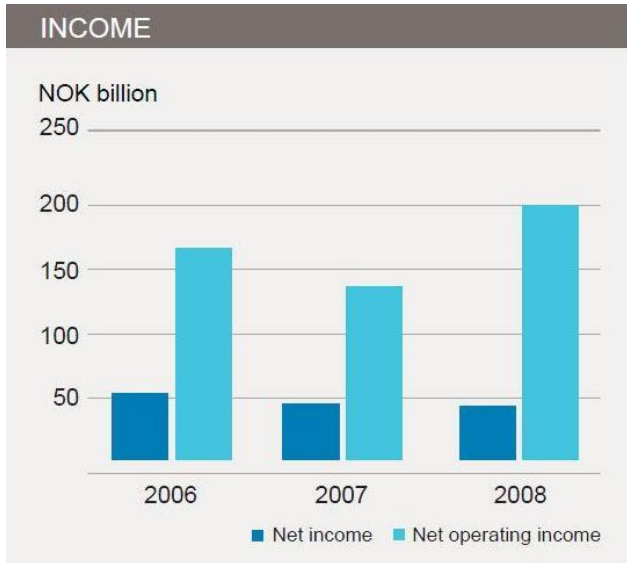


Exhibit 3: Financial Highlights**StatoilHydro Annual Report 2008**

(in NOK billion, unless stated otherwise)	For the year ended 31 December		
	2008	2007	2006
Financial information			
Total revenues	656,0	522,8	521,5
Net operating income	198,8	137,2	166,2
Net income	43,3	44,8	51,8
Cash flow provided by operating activities	102,5	93,9	88,6
Cash flow used in investing activities	85,8	75,1	57,2
Interest-bearing debt	75,3	50,5	54,8
Net interest-bearing debt	46,0	25,5	43,8
Total assets	578,4	483,2	458,8
Net assets	216,1	179,1	169,4
Share Capital	8,0	8,0	8,0
Minority Interest	2,0	1,8	1,6
Net debt to capital employed	17,5 %	12,4 %	20,5 %
Return on average capital employed after tax	21,3 %	17,9 %	22,9 %
Operational information			
Combined equity oil and gas production (mboe/day)	1 925	1 839	1 780
Proved oil and gas reserves (mmboe)	5 584	6 010	6 101
Reserve replacement ratio (three-year average)	60 %	81 %	76 %
Production cost (NOK / boe)	38,1	44,1	28,4
Share information			
Ordinary and diluted earnings per share	13,58	13,80	15,82
Share price at Oslo Stock Exchange on 31 December	113,90	169,00	165,25
Dividend paid per share NOK (1)	7,25	8,50	9,12
Dividend paid per share USD (2)	1,04	1,22	1,31
Weighted average number of ordinary shares outstanding	3 185 953 538	3 195 866 843	3 230 849 707
(1) See Shareholder information section for a description of how dividends are determined and share repurchases.			
(2) USD figure presented using Federal Reserve Bank of New York 2008 year end noon buying rate for Norwegian kroner was USD 1.00 = 6.9756 NOK.			

Exhibit 4: Merger Progress Benchmarks

StatoilHydro Annual Report 2008



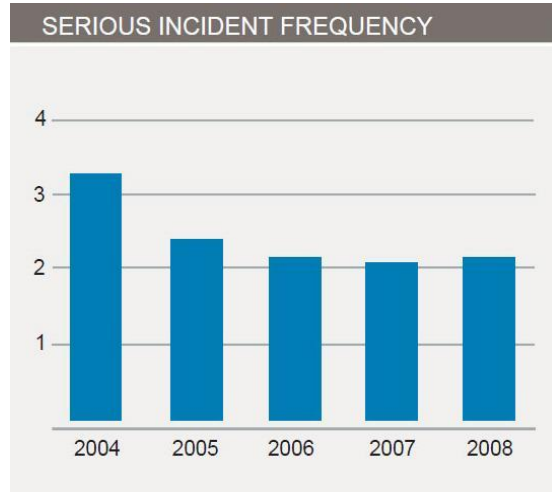
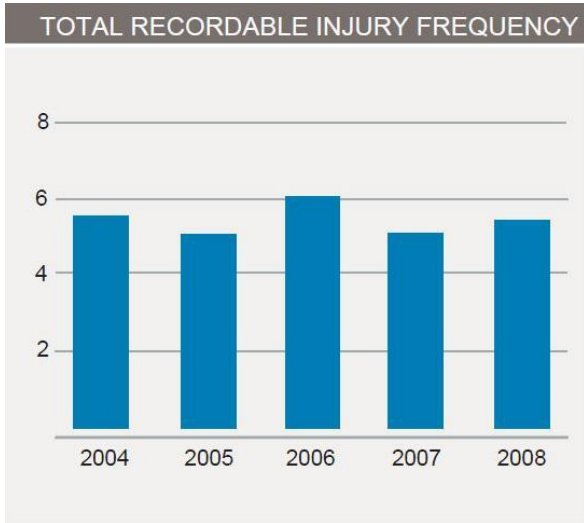
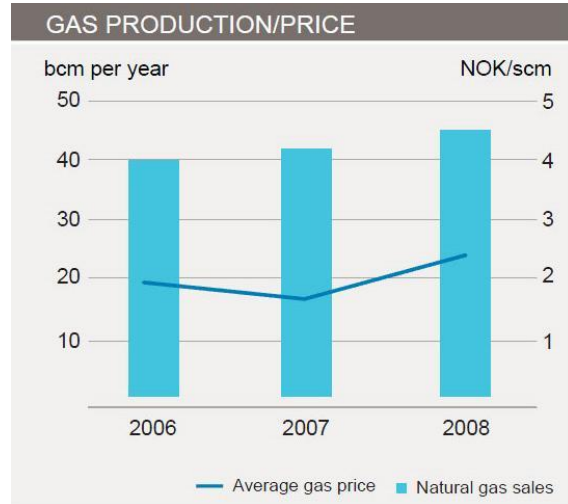
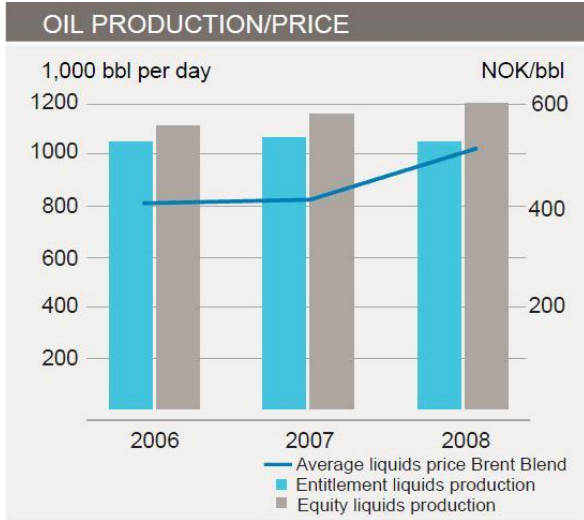
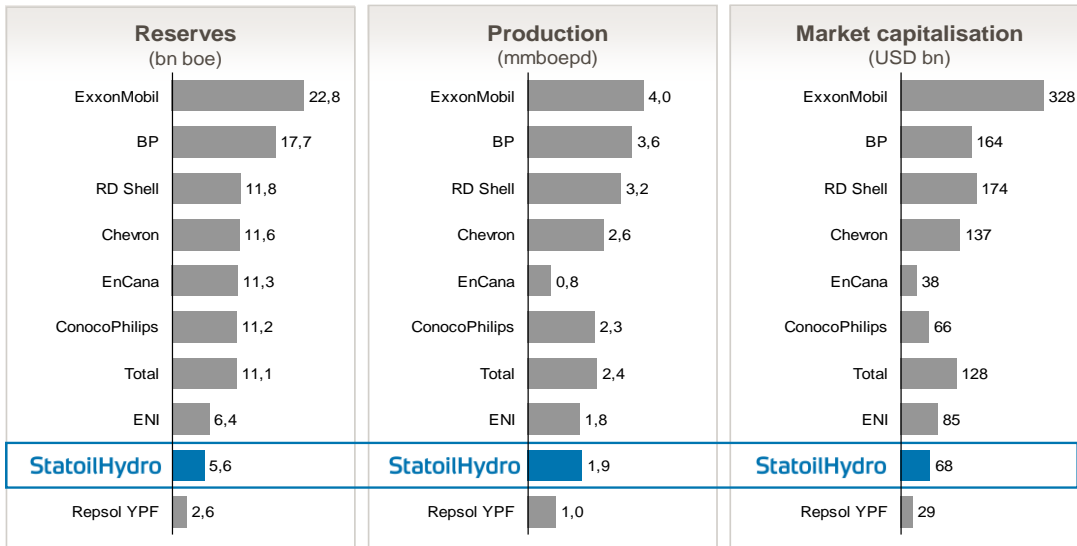


Exhibit 5: The industry landscape (as per fall 2009)

StatoilHydro in the industry landscape

Key figures for international oil and gas companies



Source: UBS Warburg, StatoilHydro.

StatoilHydro

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