

# When Conflict Communication Threatens the Business Relationship: Lessons from the "Balder" Story

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**ABSTRACT.** This paper explores the importance of selecting appropriate communication styles when facing conflict in client-contractor relationships. By means of a case from the Norwegian oil and gas industry, which ended in a lengthy and fierce court battle, important sources to the outcome are identified. Communication strategies employed by the project partners, characterized by high degrees of "self-orientation" and "indirect" communication, prevented a "beautiful exit". The paper suggests that managerial awareness of how conflict episodes should be communicated not only reduces the risks of a devastating dissolution process, but can bring the parties back to a "normal" level of interaction. The managerial awareness is specified in terms of four propositions that conclude the paper. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <<http://www.HaworthPress.com>> © 2006 by The Haworth Press, Inc. All rights reserved.]*

**KEYWORDS.** Conflict, relationships, communication, projects, oil industry

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The author wishes to thank two anonymous reviewers for useful and encouraging comments on earlier drafts of this article.

Journal of Business-to-Business Marketing, Vol. 13(2) 2006  
Available online at <http://www.haworthpress.com/web/JBBM>  
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doi:10.1300/J033v13n02\_02

## INTRODUCTION

According to Norse mythology *Balder* is the god of light, joy, purity, beauty, innocence and reconciliation and was supposedly immortal. While thinking of him as invincible, the gods enjoyed themselves by using *Balder* as an excuse for knife-throwing and archery. Pierced through the heart; *Balder* fell dead (Encyclopaedia Mythica, 2003). The following story illustrates the drama related to another *Balder* far from any god, but close to inter-organizational realities. It is about how business partners, within a project, starts a relationship in the light of joy, innocence and reconciliation, but ends up in lengthy knife-throwing battles, fuelled by organizational pride and lawyers.

Conflicts are normal in any kind of inter-organizational relationships (Vaaland and Hakansson, 2003) and is highly relevant in projects characterized by a high degree of decision making, uncertainties lack of accessible information and lack of control the parties have on episodes and on required resources (Cova, Ghauri and Salle, 2002). By empirically studying a project in the North Sea oil and gas industry, the importance of informal interaction (see Vaaland, Haugland and Purchase, 2004) and a high degree of technological innovation appear to impose further challenges into a client-contractor relationship (Bower, Crabtree and Keogh, 1997). Episodes of conflict between clients and contractors in these interactions may easily develop into legal disputes and a costly and devastating court battle (Vaaland and Hakansson, 2003; Vaaland, 2004).

The causes of movement towards undesired developments within relationships can be found by questioning at least three issues (Tahtinen and Halinen, 2002). Firstly, to what extent do the parties represent a structural misfit prior to entering the relationship? In other words, are certain clients and contractors "susceptible" to create conflict that cannot be handled (see Vaaland et al, 2004)? Secondly, do clients and contractors lack the awareness of the consequences such as additional and significant costs in legal fees, lost reputation, and switching costs in terminating a relationship prior to project completion (see Vaaland and Tähtinen, 2003)? Finally, is the communication pattern between clients and contractors insufficient to handle episodes of conflict? This last question will be addressed later in this article. By understanding the pattern of how conflict episodes are communicated, and types of communication strategies best for those situations, we can reduce the risk of losing control with conflict episodes and reducing the possibility of ending up in court. One can argue that the three sources to a breakdown

in the relationship are interrelated, and cannot easily be separated in an analysis. For example, cultural barriers between the companies (i.e., predisposing elements) can affect and be affected by the parties' mode of conflict communication (i.e., precipitating events). Although the interrelatedness is acknowledged in this study, the importance of communication pattern is focused, and in particular what managers should do in order to avoid a relational break up due to "unfortunate" expression of disagreement.

The study belongs to the research stream investigating the process of ending business relationships. This research stream covers a range of relationship break-ups, demises and endings (Tähtinen and Halinen, 2002). Some studies focus on the static reasons for ending business relationships (e.g., Vaaland et al., 2004; Haugland, 1999; Hakansson and Snehota, 1997; and Gassenheimer, Houston and Davis, 1998), whereas others address the "process" of business relationship's ending (e.g., Halinen and Tahtinen, 2002; Alajoutsijarvi et al., 2000; Giller and Matear, 2000; and Grønhaug, Henjesand and Koveland, 1999). The study emphasizes the process of termination and belongs to the latter group. The interactive nature of exchange relationships, and the perceptions that the parties are likely to have about the ending of a relationship, requires researchers to take a dyadic view of relationships (Tähtinen and Halinen, 2002, c.f. John and Reve, 1982), and one that would be used in this study.

Recent studies (e.g., Alajoutsijärvi et al., 2000; and Giller and Matear, 2000) stresses the importance of minimizing damage occurring to parties directly or indirectly involved when ending a relationship. Alajoutsijarvi et al. (2000) provides a typology of communication strategies available to support a *beautiful exit* when faced with the closure of a business relationship. Their framework will be applied to investigate the parties' use of various communication strategies during the life of a five-year old project relationship that finally ended through the courts. The framework of Alajoutsijärvi et al. (2000) focuses on communicating ending, but this study will highlight a situation where the main reason for ending relationships is related to the way conflicts are resolved and episodes avoided between the parties. Whereas recent studies (e.g., Alajoutsijärvi et al., 2000) are based on comparative case studies, this is based on a single case study thus allowing a deeper focus on the processes that leads to termination. This study concentrates on the interaction between a large multinational company and one small international company involved in a large construction project in the Norwegian offshore oil industry.

According to Tähtinen and Halinen (2002) there are at least two issues related to relationship ending that need further exploration. Firstly, the interactive nature of relationship ending based on data from both parties and secondly, shifting focus from a context where the party(ies) have an intention to leave towards actual endings. Since this study is based on dyadic data revealing the interaction between two parties and, furthermore, explores the process leading to an actual relationship ending, it contributes to both issues.

The research problem is to explore how the style of communicating conflict affects the sustainability of a business relationship. Or more specifically, how an "aggressive" communication pattern between business partners leads to an unnecessary unfavorable relational break up. Based on a single case study methodology, employing dyadic data from a real relationship break up, the process leading to the break up is investigated by means of conflict communication categories.

In the first section, the main components of the relationship termination process and ways of communicating conflict will be outlined followed by case selection and methodology. The third section presents the case and analysis in terms of communication strategies. The fourth section discusses the case more conceptually while the following sections suggest implications, limitations, and further research followed by concluding remarks.

### WAYS OF COMMUNICATING CONFLICT EPISODES

Termination of a relationship is often a consequence of *conflict* (Ping and Dwyer, 1992), although, it is implicitly not a condition for termination. Episodes of conflict are considered types of *precipitating events* that bring changes to the dyad and accelerating the process of termination (Tähtinen, 1998). *Precipitating events* are, however, only one out of three main factors influencing the termination process. *Predisposing elements* and *attenuating factors* also influence the managers' decisions and actions during the relationship ending process (see Tähtinen, 1998; Tähtinen and Halinen, 2002 for further explanation). This study focuses on how the communication of precipitating events (i.e., conflict episodes) affects the relationship prior to dissolution. The term communication in this context is the act of communicative behavior, which includes both oral and written and the strategy to remain silent for an unexpected period of time (Alajoutsijarvi et al., 2000; Key, 1980). Since the focus is on conflict episodes, the label *conflict communication*

*strategies* is applied to reflect the communicative strategies available to managers in a relationship termination process.

*Voice* and *exit* are the main strategies for an actor in the process of relationship termination (Hirschman, 1975; Alajoutsijärvi et al., 2000). An *exit strategy* implies that the company wants to terminate an existing relationship, and a *voice strategy* implies confronting the reason for potential dissolution together with the other party, and perhaps restoring and maintaining the relationship (Alajoutsijärvi et al., 2000).

Conflict communication strategies can be expressed along two dimensions; the degree of *self-orientation*, and the *degree of directness* in communicating conflict issues. A high degree of self-orientation implies expedience for itself at the other party's cost (ibid). A low degree of self-orientation (i.e., other orientation) implies avoidance in hurting the other party in an effort to consider conflict as a mutual challenge rather than to blame the other party. The degree of directness expresses whether perceptions and intentions towards the other party are communicated openly and frankly, or characterized by disguise and ambiguity. Application of direct strategy leaves the partner in no doubt as to the wishes of the initiator (ibid). Direct communication includes all *voice* strategies, and the *exit* strategies where the decision to leave is clearly articulated towards the counterpart (i.e., *communicated* and *revocable exit strategies*) (see Alajoutsijärvi et al., 2000 for further).

Both dimensions that reflect "degrees" differences between *self-* versus *other-orientation* and *directness* versus *indirectness* are blurred, both in a theoretical sense and in an empirical sense. In an empirical sense the use of more than one strategy simultaneously or at different levels, or movement from one strategy to another (ibid) adds further challenges to applying the typology.

### VOICE

*Voice* is a *direct communication strategy*. One way of applying voice is to avoid blaming the other party while communicating *changes within the relationship (other orientation)* (ibid). A second *other oriented* alternative could be included namely a *self-initiated change*, to reflect a situation where required changes are solely directed to one's own organization implying relational concessions. In some situations the parties hold a more *self-oriented* focus by, for example, *changing the partner* (ibid). Based on this study a second alternative, *changing the third party*, is suggested. This implies a desire to change a party (e.g.,

sub-supplier, governmental bodies) beyond the focal dyadic relationship.

### EXIT

Whereas a *voice* strategy is direct, the *exit* strategy can either be direct or indirect. *Direct exit strategies* are explicit and remove all doubt about the intention to disengage (ibid). The former, *fait accompli (self)* leaves no opportunity for discussion, discontinuing the relationship without the other party contributing to the ending process. By contrast, a *negotiated farewell (other)* allows each party to see the inevitable end and even the benefits from relationship dissolution. An *indirect exit strategy* can easily confuse the partner and increase level of uncertainty over relationship continuity. This strategy can materialize in terms of, for example, *cost escalation (self)* where the disengager can try to raise the other partner's relational costs to the point where the partner starts to dissolve the relationship (ibid). The message can also follow a *signalling strategy (other)* where the disengager might use the public media or other actors in the network to communicate the exit decision (Alajoutsijärvi et al., 2000; Ping and Dwyer, 1992).

According to Alajoutsijärvi et al. (2000) parties can use different voice and exit strategies simultaneously, which can be a recommended way of communicating conflict. Companies are also free to proactively move from one strategy to another as a result of their counterpart's actions (ibid). In the following section the applied case and methodological choices will be presented.

### METHODOLOGY

#### Case Selection

The study is based on a single case, which is useful in exploratory research (Frankfort-Nachmias and Nachmias, 1996), and a preferred research design strategy when the case represents a *critical case* in testing a theory, and when the case is considered *revelatory* (Yin, 1994). The study is explorative, and comprehensive enough to relate to relevant theory. Furthermore, the case is *revelatory* in the way that all written communication between the "battling" parties are made completely available to the researchers. Finally, a case study design is found to be

the only available technique since experimental or quasi-experimental design will be difficult to implement (Frankfort-Nachmias and Nachmias, 1996).

The case studied is a construction project in the Norwegian offshore oil industry. The subject named *Balder FPU* is a prototype oil production vessel that was sold by the Norwegian based *Smedvig* group to the American based *Esso/Exxon* while under construction in Singapore. The relationship was terminated during the building process and ended in a lengthy court case. *Esso Norge AS* (referred to as *Esso*) is the Norwegian part of the US based *Exxon Corporation* (referred to as *Exxon*). The case itself and access to all relevant archives related to the project provide a unique opportunity to study the process of relationship ending.

#### Design and Data Collection

An embedded design is followed based on sub units identified for extensive analysis (Yin, 1994). This study focuses on sub units related to the specific project and the ending process as a part of a larger business relationship. The decision making process between *Esso* and its mother company *Exxon* is one additional sub unit influencing the ending process. The intercultural aspect within this sub unit (i.e., the *Exxon* organization) is interesting and a highly relevant issue, but is recently investigated and published, allowing a more in-depth analysis on the significance of the communication pattern (see Vaaland et al., 2004). The analysis is primarily based on a set of unobtrusive measures (Frankfort-Nachmias and Nachmias, 1996). One crucial principle of valid data collection in a case study is to achieve multiple sources of evidence (Yin, 1994), particularly in a single case study. This is achieved by combining primary with secondary data, both within the archives and from public media and interviews. The distinct line between primary and secondary data sources is blurred because the archives contain both data collected for the specific research purpose, and data compiled for other purposes, mainly, legal summaries with the purpose of winning the court battle. An overview of the related empirical material is presented in Table 1.

Various sources of evidence collected have been analyzed, and the results are based on the convergence of information from several sources. There were, however, three challenges faced during the data collection. Firstly, the conflict escalated into a legal dispute and became subject to a court decision limiting the parties involved from being interviewed without running the risk of disturbing the legal process. Secondly, man-

TABLE 1. Data Sources

Type of data	Collected from:	Content
Primary data	Company archives	Internal memos Correspondence between the parties Internal reports
	Public media	Cited statements from the parties
	Informal interviews	Open ended questions with 3 former project members (both sides represented) with the purpose of verifying findings in archives. In addition the perceptions from two top managers from two contractors were included to verify findings.
Secondary data	Company archives	Reports made by external experts to assess the project. Summaries made by each of the parties as court material.
	Public media	Interviews with top management representatives from the parties. Journalist perceptions/articles from the court case. Statements from politicians and other third party actors.

agerial involvement was unavailable as their involvement as informants could possibly destabilize the ongoing business relationship between the two parties in other business areas other than the disputed project. Finally, the time and money already spent on the preparation and execution of the case in court for several years had drained management's capacity and thereby, there was low motivation to spend additional time on the case. On the other hand, information found in the archives were trustworthy, written from the beginning of the project in 1995 to the commencement of the court case in 2000. These were less biased by emotions from informants than personal interviews. The bias issue was found to be particularly important since the time of the court trial coincided with data collection.

The two validity threats, *maturation effect* and *selection bias* (see Ghauri, Grønhaug and Kristianslund, 1995) are, however, found particularly challenging in this study. It is possible that the relationship between conflict communication strategies and relationship ending included a time effect in such a way that the project would be terminated regardless of communication patterns simply because the project could be initially characterized as a "mission impossible". Furthermore, the majority of documents was used for the purpose of winning a legal battle, and therefore included a component of legal tactics, which may have influenced the selection of case material. In sum, however, the level of validity threats is found acceptable. Taken together the triangulation of data and the limitations in making direct interviews with the parties, the development of the converging lines of inquiry as emphasized by, e.g., Yin (1994), were thus established.

## CASE PRESENTATION

The termination process developed within a project has a planned time frame of three and a half years. The case presentation is primarily based on the writs of summons (i.e., against the counterpart) to court from both parties. These writs are supplied together with transcripts from the Esso and Smedvig lawyers' oral presentations to the Stavanger City Court (Norway) during the trial, and verified by background material (see Table 1). These sources are referred to as the *Esso writs* and the *Smedvig writs* respectively.

The termination process included the Norwegian oil-drilling contractor *Smedvig* (later referred to as the *Contractor*). They had developed a new concept for producing oil from marginal fields based on a floating vessel. The company decided to build the prototype vessel on speculation for future contracts in a world market for the exploitation of small oil fields. The building contract for the vessel was awarded to the Singaporean yard *FELS*, which started the building process in 1994.

### *Pre-Termination Phase, 1995*

Early in 1995, while the vessel was nearly 75% completed, Esso (later referred to as the *Client*) expressed interest in the vessel for use on their Balder-field in the North Sea and bought the vessel from Smedvig (Esso writs). This was not a new relationship, as the parties also had an ongoing business relationship in other business areas such as the operation of conventional oil drilling rigs (Smedvig writs).

### *Phase 1996*

In the sales and purchase agreement (SPA) between the parties, the Smedvig group was assigned responsibility for managing the completion of the vessel, including the task of obtaining governmental approval for using the vessel on the oil field. After the completion of the work at PELS in Singapore many problems began. Some of these were related to:

- i. Unanticipated design and technical aspects
- ii. Quality problems
- iii. Weaknesses in the information flow, and finally
- iv. Cooperation difficulties.

The tension between Esso and Smedvig began and sharpened when Esso's parent company, Exxon, realized that the concept of the vessel and Esso's obligation to co-operate in a jointly integrated team was not in accordance with Exxon's corporate strategy (Smedvig writes). In July 1996, the vessel was nearly completed. It was sent to the Norwegian yard O&M for final installation work. Here Esso realized that the quality of the vessel was poorer than envisioned by the Esso/Exxon site team at PELS in Singapore (Esso writes). Furthermore, new signals from the approval authorities (i.e., Norwegian Petroleum Directorate) questioned Esso's ability to cope with Health and Safety Regulations (ibid). According to Esso, this was the fault of Smedvig. In the meantime, the project was severely delayed, and suffered the loss of productivity, which led to severe costs escalations. This resulted to increased tension between the parties (ibid).

*Case analysis 1996.* Esso communicated the problems occurring at EELS, namely the deviation from Exxon's preferences and deviation from governmental rules to Smedvig (*voice/change the partner* and *voice/change third party*), requiring them to improve the project management of the building process and to impose changes on FELS. Smedvig acknowledged this and responded to Esso in three ways. Firstly, by expressing a willingness to make adaptations and improvements in its own organization (*voice/self-initiated change*). Secondly, they expressed willingness to change FELS' work performance and attitude (*voice/change third party*), and finally, the warning to Esso not to wave initial and implied contractual assumptions (*voice/change partner*).

In the next stage, temporary harmony was re-established (*voice/change the relationship*) by means of organizational changes, team-building, and improvement of the informal information flow. During the fall of 1996, however, the relationship entered a critical turning point when Esso expressed strong dissatisfaction with Smedvig's disability to handle the project (*voice/change the partner*) (Esso writes). Smedvig, on the other hand, claimed that Esso ignored the contractual assumptions about tight co-operation and tried to convince Esso to comply (*voice/change the partner* and *voice/change the relationship*) (Smedvig writes). Esso responded by postponing responses to initiatives from Smedvig and involved external experts to carry out *independent* quality studies (Esso writes) with a different frame of reference than initially agreed upon (Smedvig writes). Through this response Esso seemed to move from a *voice* to an *exit* strategy, or more specifically a *signal withdrawal* from their partner. Smedvig perceived the new frame of reference used

by the external experts as a mirror image of Esso's parent company Exxon's strategies. Summing up, one can see a change from a *direct* to an *indirect exit* strategy that moved the relationship irretrievably towards termination.

### *Phase 1997*

Early 1997, the tension in the relationship between the two intensified. After a legal dispute, Esso took over the control of the vessel from Smedvig at a time of high uncertainty about the exact quality of the incomplete vessel, extent of remaining work, and the division of costs between the two companies (Smedvig writes). Still unresolved, the vessel was moved to the *UiE* yard in Scotland for final completion (ibid). The agreed integrated Smedvig/Esso team to be monitoring the work was still not established. This limited Smedvig's ability to verify work and costs, and subsequently exposing them to guarantee costs (ibid). At the yard more and more quality problems were revealed (Esso writes), and the project appeared to lose control of its original objectives (Smedvig writes).

In July 1997, the vessel was finally completed and hooked up at the Balder oil field, nearly 3 years late and nearly a 100 percent increase on initial cost estimate (Esso writes). In October 1997, Esso terminated the Sales and Purchase Agreement for the vessel based on a fundamental breach of Agreement (ibid).

*Case analysis 1997.* The communication strategy employed by Esso was a combination of an *exit/cost escalation* strategy and an *exit/signally withdrawal* strategy. Smedvig was allowed to have a few representatives at the Scottish-yard for visual observation and to safeguard the quality and timing of work performed (Smedvig writes). The observation team was, however, expelled from the yard site, and Esso's project organization was completely replaced with new people from the original team (ibid), which represented a *cost escalation* for Smedvig, and a strong signal of *withdrawal* from initial assumptions by Esso. Esso finally terminated the contract and further formal relationship with Smedvig in October 1997 (*exit/fait accompli*).

Smedvig's response throughout 1997 was to use a direct communication strategy, but to alternate between self and other orientation (*voice/change the partner* and *change the relationship*). The intention was to make an effort to pinpoint the lack of information from Esso, and to persuade Esso to support an integrated team approach for continuing the relationship (ibid). There was also a clear protest against what Smedvig

claimed to be disloyalty from Esso in relation to written and implied agreements about risk sharing and openness (ibid). Furthermore, there was an increasing fear of being exposed to considerable guarantee costs based on different comparison standards (i.e., Exxon standards) without the ability to monitor work and costs (ibid). Smedvig maintained *voice strategies* until Esso's termination of the contract (*exit/fait accompli*).

**Aftermath Stage (1998-2001)**

After the termination of the contract, *Smedvig* claimed unlawful breach of contract and sued *Esso*. *Esso* then filed a cross action and claimed gross negligence by *Smedvig*. The court case began in March 2000, and continued until October 2001, with court decision in July 2003. After the termination of the sales and purchase agreement for the vessel, the parties resorted to the mass media to communicate their perceived rationale behind the termination. The following statements illustrate a shift from dyadic communication into the public arena:

"... but Exxon-Mobil has the whole time been unwilling to find solutions which makes it impossible for Smedvig to survive as an independent company. They apply brutal power. Therefore we had to take this legal fight, which we shall win, even if we have to go through all three judicial authorities." (Smedvig's chairman to the press, Stavanger Aftenblad, May 2nd 2000).

"I participated myself in the work to reveal the status of the vessel, and what we found shocked us." "In May the principal shareholder of Smedvig, Peter Smedvig, said that he was not interested in a amicable solution. This tells the most" (Esso official spokesman to the press, Stavanger Aftenblad, October 6th 2001).

*Case analysis 1998-2001.* The communication strategy related to media statements and the court transcripts is inferred as an *exit/fait accompli*. Both parties followed this strategy leading to conflict and minimized the possibility of an out of court settlement. When applying this strategy, other actors in the network (such as the Norwegian Petroleum Directorate, Norwegian Parliamentary members, and the Norwegian Minister of Oil and Energy) got involved with the media by making statements, exacerbating the tension between the two parties (see, e.g., Stavanger Aftenblad newspaper, March 3rd, 2000). The use of voice and exit strategies and the mix of self and other-orientation when facing major episodes towards relationship termination are illustrated in Table 2.

Table 2 indicates that both parties applied a voice strategy and a balanced set of self and other orientations until end of 1996. Tension became

TABLE 2. Major Groups of Episodes and Communication Strategies

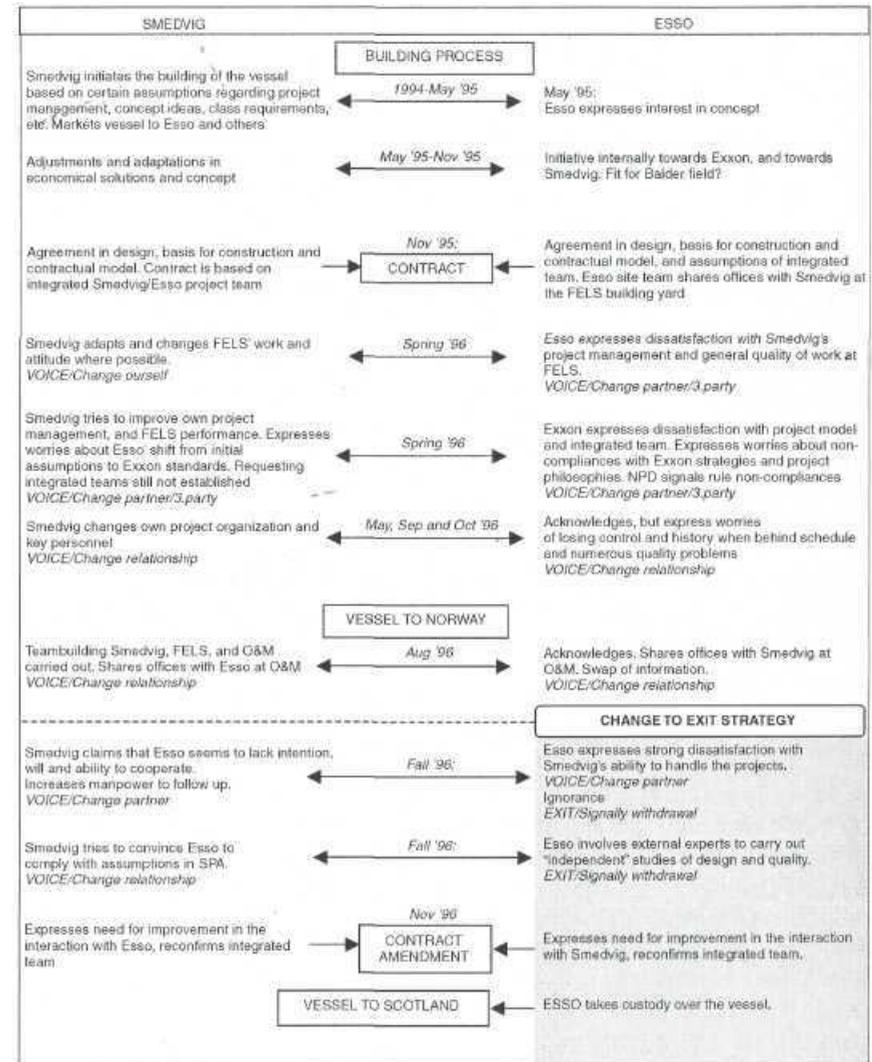


TABLE 2 (continued)

SMEDVIG		ESSO
Lack of info from Esso. Integrated team is not established at UIE as agreed. One way communication VOICE/Change partner	Mar '97	Esso limits Smedvig to have 2-3 representatives for visual observation at yard. Smedvig team is separated from Esso and Yard offices EXIT/Cost escalation/Signally withdrawal
Fear of losing initial basic project assumptions and increased Exxon influence. Request integrated team to be able to verify claimed guarantee works. Veil of secrecy VOICE/Change relationship	Mar-Jul '97	Changes Balder project organization with completely new people Esso president for early retirement. Esso initiates "Independent Project Review" with "cold eyes" on the vessel. Rejects integrated team EXIT/Cost escalation/Signally w.
Expresses dissatisfaction with passivity with Esso to solve unresolved problems. Obstruction in trying out medication. VOICE/Change partner	Jun '97	Esso ignores Smedvig initiative and terminates "Dispute Resolution Team" with Smedvig EXIT/Cost escalation/Signally withdrawal
Unknown to Smedvig until court hearings started.	Jul '97	"Balder Strategic Assessment Team" established in Exxon HQ to restore reputation and prepare terminate all 4 Smedvig Balder contracts. EXIT/Fail accomplish
Smedvig protests against deloyalty to agreement on cooperation in integrated team. VOICE/Change partner.	Sept '97	New Esso project management team Balder, no prior experience. Smedvig observers expelled from the UIE yard. "Discovery Process Organization" established Incl. 180 people at peak. EXIT/Cost escalation/Signally withdrawal
<b>CHANGE TO EXIT STRATEGY</b>		
Smedvig decides to go to court Unlawful breach of contract EXIT/Fail accomplish	Oct '97	Esso terminates. gross negligence of contract EXIT/Fail accomplish

critical at the end of 1996, with the disengager (i.e., Esso) switching to exit strategies and employing a self-oriented communication strategy; whereas their counterpart continued with a voice strategy with the inferred intention of restoring the relationship until final termination occurred.

The case leads to the following three questions: Firstly, what was the effect of Esso's shift from voice to exit? Secondly, what effect did the switch from direct to indirect communication had on the termination process? Finally, what effect did self versus other orientation had on the process? The following discussion addresses these questions.

## DISCUSSION

The learning from the case is not only how an exit should be handled in order to avoid a negative long-term effects of a termination (i.e., a *beautiful exit*), rather how to avoid exit in the first place. In other words, the objective is to identify how client and contractor in a tense relationship can ease down the relationship by better communication of the con-

flikt episodes. Possible answers will be further discussed in terms of three issues. The first issue is related to the critical *shift from voice to exit*.

After 9 major conflict episodes, the Client decided to give up the relationship by switching from a *voice* to an *exit* strategy where they remained until termination. The Contractor, however, continued with a *voice strategy* and tried to develop a possible solution until the Client terminated the contract. This implied that the two parties employed different main strategies for nearly one year (fall 1996 until fall 1997). One explanation can be related to *cultural distance* between the parties (i.e., predisposing elements), which existed prior to the startup of the project. According to the Vaaland et al. (2004) study, a fundamental difference in tolerance level for uncertainty and ambiguity between the companies can have motivated the Client away from a *voice* strategy. In plain, if the Contractor leaves the "Exxon way", exit! There is also a possibility that a *relative power distance* stemming from a fundamental cultural distance can have played a role (ibid). For example, in the way that the Client exhibited a stronger agent-principal attitude than the Contractor, thus leading the parties away from a joint *voice* strategy.

Regardless of the impact of cultural distance that existed prior to the emerging number of conflict episodes, differences in *voice/exit* impose at least one major problem when trying to keep the relationship on track. When the Client switched to *exit* and decided to leave, the Contractor remained in a *voice* mode and tried openly to proactively save the relationship from breaking up. In this situation an "open" contractor and a "closed" client can have been beneficial for the Client at the expense of the Contractor. This imbalance might have increased the tension between the parties when the "game was over" hampering the possibility of reaching an out of court settlement. In other words, the one-year *voice/exit* imbalance between the Client and the Contractor made a *beautiful exit* impossible. An additional aspect here is whether it was likely that the Client could have moved back to a *voice* if the Contractor suddenly had reached their expectations. From the case one can infer that once one of the parties go for *exit*, the way back might be too long given the fact that the Client remained in an *exit* mode for nearly one year. The challenge is thus to delay the *exit* until the *voice* has proven to fail. In the case both parties employ an exit strategy (*exit/exit*), both parties share a desire to leave, which in turn give an equal opportunity to reach a compromise and a possible *beautiful exit*. This led to the following two propositions:

*Proposition 1: If one party employs a voice strategy and the other party an exit, the possibility of reaching a beautiful exit is significantly reduced compared to parties employing a similar strategy.*

*Proposition 2: When an actor has chosen an exit strategy, the actor will remain in this strategy until termination regardless of actions by the other party.*

It is also worth mentioning that an *exit* may not necessarily be wrong, for example when the other party clearly breach contractual obligations.<sup>1</sup> The problem is rather to communicate the *exit* in a way to avoid a surprise, and thus reducing further escalation of conflict causing negative long-term effects on a termination. This challenge is further discussed in terms of whether the message is communicated *directly* or *indirectly* to the counterpart.

The second issue is related to the degree of directness of communication. Until the very last year the parties employed a *direct communication form* (within a voice strategy) with no doubt to the intentions of the two parties. The last year, however, the Client switched to an *indirect* form (within an exit strategy), while the Contractor remained *direct*. One possible explanation can be found among predisposing elements, primarily uncertainty avoidance, where the Client tried to control a chaotic situation by reducing the information flow to the Contractor (Vaaland et al. 2004), whereas the Contractor was influenced by a business culture supporting openness and directness in order to solve a "mutual problem". Since this strategy shift by the Client was not communicated explicitly, there is reason to believe that the Contractor might have been misled, investing further in the relationship in spite of the Client's "hidden" decision to leave. One example of this is the *Balder Reputation Recovery Team* (within the client's mother company), which developed a media campaign to be launched after a planned termination of the contract with the Contractor. The cost of the "hidden game" was revealed during the planning stage of the court case where the tension reached such a high level, that an out of court settlement was impossible. The *indirectness* by the disengager (i.e., the Client), which included *cost escalations* and *signally withdrawals*, may be explained by at least two possible reasons. These are, a lack of consequential awareness (i.e., for the Contractor), but could possibly also be one way to get access to information from the Contractor for later legal sanctions. Finally, it is possible that a *direct* communication in relation to the conflict episodes would advance a too early termination, and start a legal battle while trying to complete the vessel. In the

case both parties employ an indirect strategy one might assume that there is a relatively long delay in the termination process since none of the parties actually confront the conflict episodes. This leads to the following proposition:

*' Proposition 3: A beautiful exit is significantly reduced when one party employs a direct communication strategy and the other party employs an indirect communication strategy compared to a situation where both parties employ the same degree of directness.*

The third aspect of importance to the distorted direction of the relationship is related to the *degree of self-orientation* being used when communicating conflict. Until the last year the Client's communication strategies consisted of *changing the relationship*, *changing the partner* and *changing third party* (i.e., the Yard). It is thus possible to see a combination of direct, self-oriented and *other-oriented* communication strategies being applied by the disengager. This is consistent with prior studies claiming that companies can switch between *self-* and *other-orientation* (Freeman, 2001; Alajoutsijärvi et al., 2000) during the relationship termination process. In the final year of the relationship the Client's strategies were primarily self-oriented (exit) which significantly reduced mutuality and cooperation. One interesting aspect is that no *other-oriented* exit strategy was activated by the disengager, quite different from the previous two years. According to Alajoutsijärvi et al. (2000), a *beautiful exit* implies an other-orientation strategy, and in this case the switch to pure self-orientation seemed to leave no opening for a *beautiful exit* to be utilized by both parties as episodes unfolded.

Based on the findings in the case one can infer at least four possible reasons for not applying other-orientation. Some of these reasons can be traced back to *predisposing elements* found in the *cultural context* of the companies, and some are more influenced by situational variables. Firstly, the Client's (i.e., the disengager) fear of losing control supported a self-orientation. During the building process, cost and time limitations were significantly exceeded combined with severe quality problems, which led to a focus on avoiding a scandal by minimizing the Client's negative effects, internally and externally in the project. It is possible that this fear is related to *uncertainty avoidance* (see Vaaland et al. 2004) and the Client's need for implementing their own "Exxon way" of conducting project management, rather than sharing influence and power through other-orientation. Secondly, the disengager could have had a motive to show decisive power for internal stakeholders by means of a self-orientated strategy. There are several

indications in the data that the Client's parent company was gradually becoming more sceptic over the Client's choice of partner, technical solutions and contractual model, and wanted tighter control over significant changes. This was best achieved by a strong internal focus and limited disturbance from the counterpart (i.e., the Contractor) followed by an other-orientation strategy. Thirdly, the disengager might have perceived organizational slack (see Cohen and Cyert, 1965) in the counterpart's organization that could only be released by applying power. In this case, this is illustrated by the Contractor's immediate increase of managerial resources on the building site in response to the Client's strong expression of dissatisfaction with the Contractor's follow up of the project. A fourth possible reason can be that the disengager actually wanted to create legitimacy over their required action towards their counterpart's lack of performance. One illustration of this is when the media started to get involved in what they referred to as the *scandal vessel*, and the disengager solely blamed The Contractor as the source of the trouble.

These four elements contributed to maintaining the self-oriented *exit* approach, at the expense of an other-orientation, which would have provided the opportunity for terminating the relationship with a *beautiful exit*. It can be inferred that it is very difficult to avoid an escalation of conflict and jeopardizing the relationship if one or both parties continue with a *self-oriented* strategy. This leads to the fourth proposition:

*Proposition 4: There is a correlation between the degree of self-orientation and conflict escalation.*

The case findings support two important knowledge claims proposed by Alajoutsijärvi et al. (2000). Firstly, their typology of communication strategies is found valid for analyzing the pattern leading to the final break-up of the relationship in this case. The second is related to the constraints legal and technical bonds imposed on the selection of communication strategies, thus limiting a *beautiful exit*. In this case the legal considerations and possible preparations for legal sanctions by the disengager may have been the driving forces behind the patterns of communication, even from the early beginning of the relationship. It is therefore important to emphasize that the communication pattern is mirroring underlying driving forces. Therefore, the high risk in the project and legal focus could have made it extremely difficult to go for a communication strategy to ensure a beautiful exit. During the analysis of the case two more *voice* strategies were introduced, and added to the exist-

ing categories proposed by Alajoutsijärvi et al. (2000). The new categories of *self-initiated change* (other orientation) and *changing the third party* (self-orientation) were found useful in the case analysis.

The focus on how a disrupting court battle can be avoided can be opposed by the fact that under certain circumstances one of the parties, and even society will benefit from a public court trial, regardless of an *ugly exit*. The disengager in the *Balder case* won the legal battle. The inclination towards "court" versus "out-of-court" treatment of conflict can also be related to differences in business cultures in USA and Scandinavia. It is therefore proper to admit that the study is influenced by a view favoring "out-of-court" compromises. Relationships between clients and contractors in projects are frequently aware of conflicts as a natural part of the interaction. The oil industrial projects are characterized by a strong technological focus using tight buyer-seller interaction facilitated by a high degree of informal communication (Bower et al., 1997) making relationships vulnerable to breakdown. It is therefore crucial to understand how inter-organizational conflict can be handled in a way that does not jeopardize the whole relationship, and eventually end up in an open court battle.

### MANAGERIAL IMPLICATIONS

When one party wants to exit, and the other does not, how can style of conflict communication either save the relationship or make a *beautiful exit* possible? The crucial point here is to keep the communication lines open to avoid a "hidden game" towards the counterpart. When a client or a contractor switches from voice to exit this may have at least two explanations. Voice (from client side) can fail because the contractor is obviously incapable of reaching specified quality standards, or revealing a fundamental lack of necessary skills. In this case an exit can be highly appropriate. In other situations, however, the interplay between client and contractor is the core of the problem. If so, the client's own role, and communication pattern, should be emphasized along with the contractor's. In this case there might have been an appropriate reason for an exit. However, there was clearly a potential for avoiding a costly legal battle (i.e., *ugly exit*).

Emphasizing on *directness of communication* I suggest the parties keep a direct communication style as long as possible, regardless of whether voice or exit is employed. Directness will increase the "loser's" ability to understand disengager's position and improve the possibility

of saving the relationship or secure a beautiful exit. Directness may even lead to a change within the partner's own organization, within the dyad partner, or within a third party organization, and thus recover from a complete breakdown in the relationship.

Thirdly, keep *other-orientation* as long as possible with a strong focus on the relationship rather than a pure self-orientation assuming that the other party is proven to be wrong. Even when there are obvious performance gaps (by contractor), other orientation can be a more effective way to reduce tension and achieve a mutual understanding of the exit, rather than reducing a relational problem to a matter of one-sided concessions by the counterpart.

Whereas the former three implications relates to a situation where the conflict is manifested in the relationship, a fourth implication relates to a situation where the manifested conflict are still yet to come, but where there is a general tension and vulnerability in the relationship. In such a situation the sustainability of the relationship should be enforced by introducing relationship improvement processes, for example by identifying "events of friction" with the aim of levelling out the parties perceptual differences (see Vaaland 2004).

### LIMITATIONS

Two limitations are found particularly relevant. Firstly, the study has been focused on one out of three factors having influence on the break up of a business relationship. This implies that some underlying factors, such as cultural distance (i.e., predisposing elements) and lack of awareness of attenuating factors, can cause an affect on the parties' choice of communication strategies when facing conflict. It is uncertainty with respect to the significance of interrelatedness among the three factors. Secondly, the external validity in a single case study may always be questioned. The fact that the case is a complex technology project working within unusual tight time and resource constraints, calls for some carefulness when interpreting the results, at least when dealing with more conventional organizations.

### FURTHER RESEARCH

This paper focuses on the communication style related to conflict episodes and its effect on relationships ending in projects. Further re-

search should investigate more underlying factors having effect on the choice of conflict communication strategies. Particularly the role of external lawyers being involved by the parties and legal bonds would be useful to explore further. Closely related to this is the cultural aspect in connection with whether to emphasize and prepare for legal sanctions versus adding relational investments to reduce the risk of ending up in court. How does this affect the choice of conflict communication strategies? Are there any cultural differences in normative assumptions of choosing "court" versus "out-of-court"? A third issue is related to the rather broad communication categories applied in the study that should be refined and further explored in new studies. Finally, the four propositions made should be further investigated. There are still more gaps to bridge for other researchers.

### CONCLUDING REMARKS

The lessons from the Balder case can be summarized in terms of three issues and four propositions: Firstly, a shift from voice to exit represents two challenges if a beautiful exit is found desirable. If one party employs a voice strategy and the other party employs an exit, the possibility of reaching a *beautiful exit* is significantly reduced compared to parties employing a similar strategy (proposition 1). When an actor has chosen an exit strategy, the actor will remain in this strategy until termination regardless of actions by the other party (proposition 2). Secondly, different degree of directness in the communication pattern is one further challenge for achieving a *beautiful exit*. A *beautiful exit* is significantly reduced when one party employs a direct communication strategy and the other party employs an indirect compared to a situation where both parties employ the same degree of directness (proposition 3). The shift from other orientation to self-orientation is the third issue calling for awareness, since a correlation between the degree of self-orientation and conflict escalation is suggested (proposition 4). Just like the dramatic ending of the Norse god *Balder*, (and the *Balder project* as well) business relationships under pressure easily end as a target for knife throwing and archery. Perhaps the happy divorce is an illusion. What is no illusion, however, is the great number of unnecessary relational break-ups and court battles that could have been avoided by improving the way disagreements are communicated.

## NOTE

1. It has to be added that the Court's decision on July 30th, 2003 acknowledged the Client's legal right to terminate the contract based on misconduct from the Contractor.

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Revised for Second Review: November 30, 2004