

Case study: bp and the gulf of mexico oil spill

Business



Do you agree with TonyHarvard' s quote at the end of the case? I would not agree in entirety with Tony Harvard's claim that " This is not BP. It is an industry accident. There are a number of weaknesses in the industry that allowed this incident to happen, but as numerous studies into this incident, including the National Commission set-up by President Obama to look Into this incident - shows that the Incident was caused mainly because of BP and In some Instances by Its partners on this rig - Transoceanic and Hallucination.

Was this disaster strictly a BP failure or an industry accident? To understand responsibilities in this incident, we can study the actions of the players of the offshore drilling sub-industry Into three - government policies by the regulatory odes such as the MS (Mineral Management Service) and other government agencies, Industry practices as a wangle Ana octagons Day special companies, In tens case, BP, Transoceanic and Hallucination.

The regulatory body MS had a clear conflict in overseeing the offshore drilling, as not only was it the body that ensured regulatory compliance, it was also financed by leases that it provided the oil companies for tracts in the Gulf of Mexico, and more importantly, MS received royalties based on the amount of oil produced at various wells. It was in the interest of MS to ensure oil extraction to start soonest, for loyalties to pour in.

In this role, it also became an industry partner, not only a regulator.

Mom's policies did not keep in pace with the rapid advancement of departed drilling, nor did it have in place enough resources, especially in terms of petroleum engineering talent to monitor these practices efficiently. Overall,

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the industry had a penchant for resisting federal monitoring. The statistics showing over 900 fires and explosions on rigs only in the Gulf of Mexico with 60 dead and more than 1, 500 injured since 2001, shows how dangerous Gulf drilling was, across all impasses in the Gulf, not only BP, making accidents in general an industry issue, not strictly a BP one.

The Departed Horizon rig explosion, from the extensive evidence of correspondence and accounts of involved persons, puts the fault primarily on the decisions made by BP and its partners on the departed rig.

While loose regulatory policies and widely- accepted industry practices allowed for this accident to happen, the decisions made by BP and to some extent by Transoceanic and Hallucination, were the main reason for the explosion.

As the National Commission report put it: “ The immediate causes of the Macon ell blowout can be traced to a series of identifiable mistakes made by BP, Hallucination, and Transoceanic” and “ The decisions made by these companies reveal systemic failures in risk management raising questions about the safety culture of the industry. ” (“ Deep Water Summary To President,” n. D.) What factors affect the competitive environment of the oil industry?

To understand the factors that affect the competitive environment of the oil industry, a useful framework would be a PESTLE analysis. The factors that affect the competitive environment of the oil industry are outlined in the table below: Page 2 of 9 Table 1: PESTLE Analysts PESTLE Analysis (“ Top 20 Risk Factors Facing the Oil & Gas Industry - Energy Digital,” n.

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D.) Political Increased regulation following the Deported Horizon spill has not only increased cost of compliance, it has made Oil companies look like the bad person on the block.

The accident has also made the process of obtaining leases for drilling cumbersome, and has re-initiated the debate on whether offshore drilling is worth the cost in environmental terms. Economic Fluctuating Oil Ana gas prices are ten most gallants Doctor Tackling ten Oil Industry, tit increased taxation globally and turmoil in oil-producing countries contribute to volatility. Reserves are getting more difficult to find, and the available reserves are in high- danger areas such as departed deposits.

With reserves further out at sea and set much deeper, the estimates of size of deposits can greatly surprise as companies move into production, greatly affecting the projected economic benefit. While most top oil companies have vastly improved financial, the same cannot be said of all partners, vendors and suppliers, increasing the financial risk to oil- producing companies. General economic concerns weigh in on consumption and prices, as consumers in tough economies look to consume less and look for cheaper alternatives.

Shortage of rigs, equipment and personnel, as more companies compete for the same resources. Social Technological Competition within the industry, especially the top companies is fierce, especially with major companies globally, being monopolistic in nature and owned by governments of oil-producing nations. With the negativity surfacing out of the Deported Horizon

accident, the oil industry is facing increasing scrutiny and resistance from all kind of groups and sections of the population.

Public opinion that was starting to favor offshore drilling is now against the same.

There is a general trend to “go green”. While companies can have greener sources as part of their overall production portfolio, which even companies like BP have tried to do, the core crude oil will always be seen as a non-green resource and will be challenged by consumers with their support for renewable energy. The technology, especially for offshore drilling, has advanced to a point where companies can now drill more than 20,000 feet below the sea-bed. However, the exercise is wrought with extreme danger due to high-pressure environments and other challenges.

Companies in the oil industry will need to keep up research and development to ensure safer, faster, and more reliable technology is used in extraction of oil and gas.

Page 3 of 9 Legal The legal fallout from the Deported Horizon has been tremendous, with the overall oil industry being punished by high future costs due to actions of BP and the high cost that BP had to undertake for clean-up and compensation costs. Environmental The total cost of producing and consuming oil has been conclusively over to De very Nell on ten environment. Netter tongue spells or tongue emission of carbon-dioxide into the environment and the oft-repeated phenomena of global warming.

Question 2 What were the most significant flawed decisions made by BP and its partners in this The flawed decisions by BP and its partners were

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numerous in this case, beginning right from its application to drill, when it downplayed the environmental risks, claiming that a spill was unlikely, and were it to occur, it would not exceed 4, 600 barrels and with minimal adverse impact (“ 10 Disastrous Mistakes BP Made Before

The Departed Horizon Exploded,” n. D.).

Among the many operational flawed decisions that were made, many as a result to save further “ lost circulation events”, time, and costs, the following were the most significant: Using untrained personnel: BSP Bob Kalmia was made the well site leader, yet was inexperienced and untrained for departed drilling. Using high-risk, cheaper methods: BP used a “ long-string” system, which was riskier, but less expensive. This was a practice that BP employed more than the other oil companies in the industry.

Sacrificing safety of process for cost saving: The internalizes that ensured the casing remained at the centre of the hellebore weren't sufficient, and the supplied ones were not to specification. However, to save valuable time, BP went ahead with installation. Not adhering to procedure: The lab results by Hallucination were not reported completely in the first instance to BP.

However, the final studies suggesting instability of the cement was never seen, or ignored, by both Hallucination and BP.

Skipping independent checks/balance: To save costs and time, BP declined the contractor Sulzberger from testing the completed cement Job as an independent rifer of quality of work undertaken. Extreme Cost-cutting: Using leftover fluids as the “ spacer”, partly because BP did not want to deal with

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hazardous waste regulations were they to send the used fluids back to the mainland. Falsifying results to start extraction: Even when in the final tests, there was the suggestion of a potential leak; the conclusion made was that the testing was successful.

Avoiding necessary warning systems: Keeping the alarm system to inhibited mode to avoid false alarms and using a blow-out prevented that was known to be faulty (" 10 Disastrous Mistakes BP Made Before The Departed Horizon Exploded," n. D.

). There seemed to be a general overlap of decision-making and no formal process for procedural changes. There also seemed to be a pervasive attitude of " we own it, we call the shots" from BP. Page 4 of 9 Was this a case of poor strategic choices that were made over time or of a hikers taking culture?

Strategy is influenced greatly by culture and history which can be seen in this case. This was a case of poor strategic choices made by BP, partly because of its history and mostly because of its high-risk taking culture (to be overfed in detail in Q).

Evidence of its high-risk taking culture is evident from both the case and from other studies Like ten report Trot ten Notational commission. It consistently points to B its quest to be bigger and faster, choosing profits over safety.

There had been other major accidents Just a few years earlier to this accident, more notably the Texas refinery accident in 2005, the Thunder

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Horse rig nearly sinking in 2005, and the major leak in the Prudhoe Bay pipeline in Alaska in 2006. In all these cases, independent studies showed that the incidents were avoidable, had the safety ultra at BP been higher. Interestingly, BP had in place extensive personal safety procedures and rules, but not sufficient preprocessed safety procedures.

Question 3 How did BSP history and culture shape decision-making on the Departed Horizon British Petroleum, as it was formally known, had always operated as an arm of the British Empire, complete with government hierarchy and life employees, with most of its oil coming from middle-eastern countries.

Bureaucracy was the word of the day and operating costs were very high, resulting at the time to a profit per employee half that of Exxon (“ BP: ‘ An accident waiting to happen’ - Fortune Features,” n. D.).

With increasing trade and technological liberalizing, the middle-eastern countries set-up their own companies and BP was forced to leave. To make up a fraction of what it had lost, BP found two new sources of oil, albeit much in much riskier environments: Alaskan Prudhoe Bay and the North Sea.

Competitors used to refer to BP as the “ two- pipeline” company. BP needed “ elephants”- fields that increased profits substantially. The only places this could be found were in places where none had gone before - Caspian Sea, West Africa, and Gulf of Mexico (“ BP: ‘ An accident waiting to happen’ - Fortune Features,” n. .). After taking over in 1995, John Browne pursued ever-cutting costs to increase profitability.

He merged with a number of smaller companies; doubling the company's revenues and becoming the largest oil producer in the U. S. BSP rivals were now playing catch-up. Some directors worried that with the extreme cost-cutting and digesting of competing companies into BP, " There was a general feeling that they may be running a bit faster than they should have" (" BP: ' An accident waiting to happen' - Fortune Features," n.).

After the Texas explosion, a panel to study this incident reported " a lack of operating discipline, toleration of serious deviations from safe operating practices, and apparent complacency toward serious process-safety risks. " It concluded that BSP " decentralized management system and entrepreneurial culture" had " delegated" safety issues. For example it reported, BSP global safety chief, reported to a deputy to the CEO (" BP: ' An accident waiting to happen' - Fortune Features," n. D.).

Page 5 of 9 When Tony Hayward took over in 2007, he promised more cost-savings and a " virtue of doing more for less", and wanting to close the gap of USED ban with its rival Shell.

By 2010, the cost-savings had taken hold, and BP was more profitable than Shell (" BP: ' An accident waiting to happen' - Fortune Features," n. D.). All this was found to be too much, too Taste, as As as Day Nancy Elevens AT MI I won taught estate classes to BSP executives, " They just did safety wrong. " " They were producing a lot of standards. But many were not very good, and many were irrelevant.

" (" BP: ' An accident waiting to happen' - Fortune Features," n. .) This pattern of excessive cost-cutting, fast-results culture was seen over the <https://assignbuster.com/case-study-bp-and-the-gulf-of-mexico-oil-spill/>

entire gag of the Departed Horizon leading to the explosion. Even with observers and some partners alerting BP on the problems facing the rig, BP decides to ignore and ensure it got the rig to full operation and production, with little regard for the potential consequences of these actions. How did the political and regulatory environment affect decision-making by BP and its partners? There are three significant aspects of the political/regulatory environment in the case-study that affected decision-making by BP and its partners.

One was the fact that the Mineral Management Service was both a regulator and a ratter of sorts in the oil rig (it received royalties and fees from leases).

This allowed BP and its partners to have little regard for the pace at which it was getting the rig to full operational mode, with little oversight from MS, as it was in everybody best interests to have the rig in full production mode.

Secondly, after repeated accidents at the Texas refinery, the pipeline incident at Prudhoe Bay, and the Thunder Horse rig, BP was subjected to large monetary fines, but not stricter safety guidelines and regulations.

With the Principal-Agent problem pervasive, especially in large public impasses, slowing down operations and lowering short-term productivity and output would have a bigger impact in changing the safety culture at BP than monetary fines. Finally, it was the permission that BP received from regulators, allowing them to set the cement plug deeper than usual. This allowed BP and its partners to proceed with temporary abandonment even though many were not comfortable with the change in process.

Question 4 What factors does BP appear to take into account when looking at its long-term sustainability?

To understand what factors BP takes into account for its long-term sustainability, we need to look at both the concept of Sustainable Competitive Advantage (SCA) through the BRIO framework ("Applying the BRIO Framework," n. D.) and the industry factors using the Porter's five forces framework. BRIO Framework: 1. Is the Resource Valuable? Yes, the resource is indeed very valuable, without which global markets would stop producing 2. Is the Resource Rare? Yes, as a finite and non-renewable resource, even with existing large resources, oil will finish one day.

Page 6 of 9 3. Is it costly to imitate? Yes, it is very costly to imitate both the resource and what BP is doing at a global stage. 4. Is the organization well-placed to exploit this resource? Yes, "BP's global operations as one of the largest exploration companies place it at the forefront to be able to exploit the resource. Based on the four affirmative replies above, BP is said to have a sustained competitive advantage in the industry, with above normal economic implications for the company ("Applying the BRIO Framework," n. D.).

Having seen that BP has a sustained competitive advantage in the industry, the Porter's five forces model allows us to understand the factors BP takes into account as part of its long-term sustainability: Table 2: Porter's Five Forces

Force	Impact
Threat of New Entrants	Low
Power of Buyers	Low
Power of Suppliers	Low
Intensity of Rivalry	High
Product Substitutes	Low

Porter's Five Forces Technological advancements have allowed new companies in areas where oil extraction

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was too challenging and costly before. Current higher prices of oil have increased attractiveness and made it economically feasible to extract from more difficult deposits than before.

However, the industry is very capital intensive, and newer substantial oil deposits are scarce, making the barriers to entry fairly high.

After the BP spill, tighter safety and environmental compliance have forced massive investment in the industry, making it even more difficult for new entrants (“ Top 20 Risk Factors Facing the Oil & Gas Industry - Energy Digital,” n. D.). Oil being an easily traded commodity is very vulnerable to the power of buyers when there is over-supply of oil. However, the presence of oil cartels and the importance of oil to world economies ensure that such situations do not arise very often.

Hence, the industry is insulated from the power of buyers. The OPEC cartel maintains control over most of the world’s oil supply. Any decisions of production changes by OPEC or supply changes due to other factors such as war, terrorism, etc. , fluctuates the price of oil considerably in the markets, making the industry vulnerable to this threat. As oil companies move into newer and more riskier areas of exploration, there exists a general shortage of supply of rigs, equipment, and personnel (“ Top 20 Risk Factors Facing the Oil & Gas Industry - Energy Digital,” n.

.). Rivalry in this industry is intense. With limited oil deposits, except in high-risk and high-cost areas, control over these sources is high. Competition is also unfair, as many industry rivals are national companies owned by

governments of oil-producing nations. Oil was once considered a commodity that could not be replaced.

Today, this status is challenged by alternative energy, such as solar, photo-electric, etc. , are gaining in Importance, especially Owe to calls Tort netter environmental protection Ana Tort renewable sources of energy.

However, the penetration of oil as the primary energy source and the dependence of all sectors of the economy on oil make the threat of substitutes, at this point, fairly low. From Porter's above, the factors that BP takes into account to ensure sustainable competitive advantage are technological advancements in extraction, reality of increased environmental regulation, access/discovery of new oil deposits, existence of cartels and government-owned monopolies, price volatility of oil and emergence of new energy sources.

Page 7 of 9 What strategic approaches would you recommend to BP in order to ensure longtime competitive advantage in this industry? In a world increasingly concerned with the harmful effects of oil consumption and calls for renewable and alternative sources of energy, BP should invest to ensure the resource remain "valuable", by investing in technologies that would allow cleaner and more efficient burning of oil and hydrocarbons.

With reduced pollution levels and more efficient consumption of oils, the pace of move towards alternative energy would reduce. Ensure procedures and process in place for waste management generated in extraction.

If BP is on the forefront on waste and environment management, it would allow a sustained competitive advantage as BP would be the producer of choice in an increasingly pollution-sensitive world. Have adequate disaster response procedures in place to ensure quick response to any future disasters like that of the Deported Horizon. Exploration into deeper and higher risk areas will not only increase the chances of disasters, it will indeed increase the number of disasters. For sustained competitive advantage (Organization in BRIO), BP would need to ensure it is well placed to respond and contain such disasters.

Should BP find itself in a situation where a disaster is massive and the disaster response is not adequate, it should ensure that it has sufficient resources allocated for clean-up management to avoid the huge debacle resulting from the Deported Horizon due to unsatisfactory response and clean-up efforts by BP ("BP: 'An accident waiting to happen' - Fortune Features," n. D.). BP should continue looking for new and uncharted territory when it comes to oil exploration, as the only way to remain ahead of the game against its rivals in the industry.

It should not, in the quest for safety, lose its spirit of entrepreneurship that has propelled it forward so much in so little time. And finally, recognizing that the global trend is towards alternative and renewable sources of energy, and recognizing that a few decades onwards, there is the possibility of oil becoming a secondary energy source, BP should invest towards alternative energy sources such as nuclear, wind, and other forms of alternative energy sources to ensure it remains one of the world's largest and most important energy suppliers.

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