

# Risk management failures of british petroleum

[Business](#), [Risk Management](#)



British Petroleum (BP) is a major player in the energy industry. Worldwide, it is in the business of energy, fuels, petrochemicals, retail services, gasoline, industrial and motor lubricants, solar power and other services (BP, 2007). BP formerly known as Anglo-Persian Oil Company or APOC is now providing worldwide services in six continents such as: Africa, North and South America, Australia, Europe and Asia. Their head office in London oversees their business interests in many parts of the globe.

Most of their oil resources are coming from the various onshore locations in the Caspian Sea, Mediterranean Sea and in the Gulf of Mexico, as well as offshore operations in Angola, Azerbaijan, Trinidad, Algeria, Alaska and the famous BTC (Baku-Tbilisi-Ceyhan) pipeline running through Azerbaijan, Georgia, and Ceyhan Marine Terminal in Turkey (BP, 2007). Not too long ago, BP diversified their business operations from energy providers, supplier of lubricants and other petroleum products to selling other product lines like convenience items, bread products and coffee to their consumers.

Their gross income from the retail business represented only two percent of their six billion total revenues, but they continue to expand their operation because their profit in convenient shops is higher than their oil revenues (BP, 2007). BP products and services have the following brands: BP, AM/PM, Arco, Aral, Castrol and the Wild Bean Cafe. BP stands for "Beyond Petroleum". They set for quality standards to produce energy for the consumers and to build innovation to help the public to gain access to quality living.

The AM/PM convenience stores are found in different locations to provide quality services and to provide snacks or food and drinks to satisfy the hunger of their customers. Arco is one of the retail gasoline brands of BP. Together

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with AM/PM; they serve about 24 million customers a month. Aral is the petrol brand of BP while Castrol is a brand of automotive lubricant. Together they bring better motor performance to machines and vehicles. BP does not only provide energy, gasoline, petroleum and lubricants. They also offer pastries, sandwiches and drinks or coffee through their Wild Bean Cafe (BP, 2007).

The Problem BP just like any other businesses is facing different types of risks in its day to day operation. Recently the company experienced catastrophic accidents in its business operations and thinking of divesting their interest in several business units. Consequently, the CEO and its executives are under threat of losing their jobs because of pressures from its stockholders. Objectives of the Study Main Objective: The main objective of the study is to analyze the different risk management failures associated with the business operation of BP.

Specific Objectives: The specific objectives are to: 1. Identify the areas of risk management to consider including the operational, financial, market and credit risks of the company; 2. Establish a framework for the identification, measurement and control of risks; and 3. Recommend methods to mitigate the probable occurrence of identified risks and increase the shareholders value of the company. 2. CASE ANALYSIS BP organisation employs the systems of centralised direction and decentralised implementation. The centralised direction system was designed to attain businessgoalsand objectives.

The company unifies the corporation by implementing strategic objectives, values, behaviours and standards to be performed and easily understood by  
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their people. On the other hand the systematic objective of BP is decentralised implementation of its operations in order to deliver the best quality of products or services and satisfy the needs of the consumers. The decentralised implementation covered three business segments namely: Exploration and Production, The Gas, Power and Renewable and Refining and Market (BP, 2007).

For over ten years now, the British Petroleum was threatened by business misfortunes and controversies on several fronts. In 1992, Greenpeace International named the company as one of Scotland's largest polluters (Wikipedia, 2007). In March 2005, BP's Texas City Refinery in Texas City - one of the largest refinery in the United States and in the world - experienced a damaging explosion, which injured almost 100 people and led to the tragic death of at least 15 people including those who are working at the refinery. The company's misfortunes even worsened last year.

On March 2006, a leak in one of BP's pipelines located on the Northern Slope of Alaska caused a major oil spill, which polluted the tundra of the region. The incident led to the replacement of the federally regulated Oil Transit Lines (OTL's) in Alaska. Another unpleasant incident on August 2006 led to the shutdown of its oil operations in Prudhoe Bay. Ironically, the shutdown decision was made due to corrosion in their pipelines which were obviously due to negligence of the company and clear violations of safety regulations.

This event eventually led to reduction of production to 400, 000 barrels per day that causes the increase in oil prices. Recently, the Alaska Department of Environmental Conservation stated that the Prudhoe Bay oil field discharged toxic spill of methanol combined with crude oil and water spilled

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into the tundra which may threaten the ecosystem in that location (Wikipedia, 2007). In order to project social responsibility and improve its image British Petroleum changed its name into BP in year 2000 with a logo of green and yellow sunflower patterns.

Ironically the same company symbol is now under mockery and the object of controversial attacks from environmentalists and damaging court cases. The company's predicament further worsened when it was listed as one of the "ten worst corporations" during the year 2001 and 2006. In fact, BP and its competitors Royal Dutch-Shell were considered by activists to be responsible with the threatening phenomenon of climate change (commondreams.org, 2003).

According to Steven Minsky (2006), BP was warned before the oil pipeline leak happened in Alaska, but no action was made by the higher officials to mitigate its possible occurrence and reduce damages. Since the year 2002, BP's management is experiencing mounting pressures from its stockholders as discussed by Robert Heller (2006) in his web article. Lord Browne - BP's Chairman - had a history of missing production targets since November 2002. Browne also angered the senior executives of the firm when he solicited the actual situation of the business from the low level managers of their company.

Amid the controversies, the problem later on was reevaluated and the blame went back to the Chairman. Consequently, it created miscommunication due to the extra cautious stance of the executives to report failures and give inaccurate data. Enterprise Risk Management implies to the methods and processes used to organise risks while being able to grab opportunities. ERM <https://assignbuster.com/risk-management-failures-of-british-petroleum/>

offers a background for risk management involving circumstances relevant to the business goals and objectives.

It determines and evaluates different strategies, monitors progress and identifies risks and opportunities for the business venture. ERM also integrates strategic plans for operations management and internal and external control of the company (Wikipedia, 2007). ERM can be employed by BP because it uses business risk assessment which recognizes, evaluates and controls risks depending on the impact to the firm and how the business organisation manage those risks (Minsky, 2007).

### 3. AREAS OF CONSIDERATION IN RISK MANAGEMENT

Risk management referred to in this paper are the activities related to managing an organization that integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. Its primary objective is to reduce the different risks related to threats caused by environment, technology, humans, organizations and politics. Firms usually formulate strategies in order to manage or mitigate risk by transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk (Roehrig, 2006).

BP must apply risk management in its corporate financing as the technique for measuring, monitoring and controlling the financial or operational risk on the firm. The commonly used framework is the Basel II framework, which breaks risks into market risk (price risk), credit risk and operational risk and also specifies methods for calculating capital requirements for each of these components ([http://www. occ.](http://www.occ.)

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gov/ftp/release/2007-123. htm). 3. 1 Enterprise Risk Management In enterprise risk management, a risk is defined as a possible event or circumstance that can have negative influences on the survival of BP. Its impact can be on the very existence, the resources (human and capital), the products and services, or the customers of the enterprise, as well as external impacts on society, markets, or the environment.

In a financial institution, enterprise risk management is normally thought of as the combination of credit risk, interest rate risk or asset liability management, market risk, and operational risk (<http://en.wikipedia.org/wiki/Risk>). In the more general case, every probable risk can have a preformulated plan to deal with its possible consequences - to ensure contingency if the risk becomes a liability (Crockford, 1986 as cited in Wikipedia).