Aspects of bp`s ethical culture

Art & Culture

Introduction

BP, formerly British Petroleum and the Anglo-Persian Oil Company, has experienced a lot of ups and downs over its hundred-year history—from nearly bankrupting its founder William D'Arcy to becoming one of the world's largest energy companies. BP has also experienced its fair share of controversies regarding business practices, environmental damage, and hazards to workers. It and all other large energy companies have come under fire for releasing huge amounts of greenhouse gasses into the atmosphere.

For some time, BP has attempted to turn a page in its history book toward a more environmentally-friendly future through investments in renewable energy and a support of ethics and compliance initiatives. British Petroleum changed its name to BP and then tried to rebrand itself as Beyond Petroleum. This rebranding was a signal to stakeholders that it was focused on sustainability and the need to move beyond nonrenewable energy sources. When a company tries to reposition itself as socially responsible and sustainable, it has an obligation to attempt to fulfill those policies.

However, BP's efforts backfired when on April 20, 2010 the explosion of the Deepwater Horizon oil rig, operated under the oversight of BP, created one of the greatest offshore oil disasters in history. This unfortunate event has made BP the poster boy for negligence and environmental degradation. Not until August 2010 did there appear to be a final resolution to stopping the oil leak. This case provides an opportunity to observe the past efforts of BP to

improve its image, along with how these efforts were rendered virtually useless after the oil spill.

Before delving into recent issues that BP has faced, a brief history of BP is given to provide some background. Certain disasters resulting from company negligence are detailed in this analysis, and although BP made efforts to establish itself as a socially responsible company, the recent oil spill crisis brought its past failings to light once more. While BP has experienced a major crisis related to its socialresponsibility, before the 2010 oil spill BP was garnering a better reputation as a socially responsible oil company.

It even became the first oil company to recognize the presence ofglobal warmingand to launch initiatives into producing cleaner forms of energy. Sadly, however, this one disaster has tainted BP’s many efforts, causing the company to lose billions of dollars and the reputation it has worked so hard to build.

The 100-Year History of BP

BP was founded more than a century ago by William D’Arcy, a wealthy British gentleman who had invested all his savings in the quest for oil in the Middle East.

While experts and scientists had encouraged D’Arcy to pursue the venture, after more than six years of drilling, both his patience and finances were running low. Finally, in 1908, the drillers had reached almost 1, 200 feet when a This case was developed by Jennifer Sawayda under the direction of Dr. O. C. Ferrell. Research on this case was developed by Eve Sieber and

Lameck Lukanga. This case is provided for classroom use through the Daniels Fund Business Ethics Initiative, University of New Mexico.

It is intended for classroom discussion rather than to illustrate effective or ineffective administrative, ethical, or legal decisions by management. Users of this case are prohibited from converting to digital format to email or place on the internet. Call O. C. Ferrell 505-277-3468 for more information. 2 fountain of oil spewed out. After long years filled with disappointment, pain, and despair, the AngloPersian Oil Company, what would become BP, was born. The company quickly opened trade on the stock market, and D’Arcy, who had lost nearly his entire net worth, became rich.

A naphtha field in Iran, located around 130 miles from the mouth of the Persian Gulf, was the first location where the Anglo-Persian Oil Company established a refinery. (Naphtha refers to any sort of petroleum product; in this case, the Anglo-Persian Oil Company was pumping crude oil.) George Reynolds, D’Arcy’s head manager for all the miners, quickly discovered that navigating this rugged land was not going to be an easy task. Simply moving equipment to the site had been a monumental task that could take months.

To facilitate transportation of the oil, BP started building a pipeline through the area, and many of the necessary supplies had to be shipped from the United States. In a time before paved roads, everything had to be hauled through the sand using manpower and mules. Because of the difficult mountainous terrain, the pipeline project took over two years to complete. The huge scope of the undertaking drew workers not only from nearby Arab countries, but also from India and China—all of whom were seeking work in helping to build the largest refinery in the world.

By 1914, BP was about to go bankrupt again. The company had a lot of oil, but demand for that oil was low. In 1914 the automobile had not become a mass-market product yet, and companies in the New World and Europe had first-mover advantages in the industrial oils market. An even worse problem was the strong smell of Persian oil, which eliminated it from the heating and kerosene lamp markets. Winston Churchill, the British's First Lord of the Admiralty, changed all that. He felt that the British navy, which was the envy of the world, needed a reliable and dedicated source of oil.

Oil executives had been courting the navy for some years, but until Churchill, commanders had been reluctant to abandon coal. Churchill was adamant that only Anglo-Persian, because it was a British-owned company, could adequately protect British interests. Parliament overwhelmingly agreed and soon was a major shareholder in the oil company. Thus began the debate over the repercussions of involving politics in the oil industry, a debate that only became louder throughout World War II, the Persian Gulf War, and the Iraq War.

The twentieth century saw enormous growth in the oil industry, along with massive power shifts in the Middle East. In 1969, Muammar al-Gaddafi led a coup in Libya, promptly demanding a tax increase on all oil exports. Gaddafi eventually nationalized BP's share of an oil operation in Libya. This move led other oil-rich countries in the Middle East, including Iran, Saudi Arabia, Abu Dhabi, and Qatar, to eventually nationalize. The effect on BP was massive—between 1975 and 1983, the oil production in the Middle East fell from 140 million to 500, 000 barrels. In order to survive, BP had to find new places to dig for oil.

The Forties Field off the coast of Scotland, capable of producing 400, 000 barrels of crude oil a day, and Prudhoe Bay in Alaska, where BP had tapped its largest oil field yet in 1969, were the two great hopes for BP’s future at that time. However, transportation of the oil was again a problem. The remoteness of BP’s best sites would challenge not only BP’s engineering capabilities, but more importantly its commitment to theenvironment. The Forties Field pipeline would eventually become the largest deepwater pipeline 3 ever constructed, a project that required special attention due to the harsh weather.

The TransAlaska pipeline system would become the largest civil engineering project in North America, measuring nearly 746 miles long. The company performed extensive research to identify any potential environmental risks, making sure the pipeline included long above-water stretches to ensure that the warm oil flowing through it wouldn’t melt the permafrost. BP also had to take steps to ensure that habitat disruption would be minimal. The company tried to assure concerned stakeholders that the environment was a serious matter to them, which they would address with an intense level of focus and commitment.

However, BP’s actions have not always coincided with its words. The company’s promises to act as a responsible environmental steward would be questioned as parts of BP shares were sold off, as competition in the energy industry began to stiffen, and as mergers started to occur. QUESTIONS ABOUT BP’S ETHICAL CONDUCT In light of the 2010 massive oil leak, it is easy to write off BP as environmentally unfriendly. This is certainly not the

entire story, as following sections will demonstrate. Sadly, however, BP has engaged in numerous instances of questionable behavior.

These questionable deeds include fraud, environmental crimes, deaths, and endangering habitats. In March 2005, a huge explosion occurred at a BP-owned oil refinery in Texas that killed 15 employees and injured another 170 people. The company was found guilty by the Southern District Court of Texas for a one-count felony for violating the Clean Air Act. It was ordered to pay $50 million in criminal fines. The explosion was the result of a leak of hydrocarbon liquid and vapor, which then ignited. This specific unit had to be shut down for nearly a month in order to be repaired.

BP admitted that it had ignored several procedures required by the Clean Air Act for ensuring mechanical integrity and a safe startup between 1999 until the explosion in 2005. The BP case was the first prosecution under a section of the Clean Air Act, which was created to help prevent injuries from such accidental leaks of explosive substances. The company was also charged with violating the Clean Water Act when Alaskan oil pipelines leaked crude oil into the tundra and the frozen lake. The fines resulting from this infraction included $12 million in criminal fines, $4 million in payments to the National Fish and

Wildlife Foundation, and $4 million in criminal restitution to the state of Alaska. The leaks occurred in March and August of 2006, after BP failed to respond to numerous red flags. One of these flags was the dangerous corrosion of the pipes that went unchecked for more than a decade before the Clean Water Act violation. A contract worker discovered the first pipeline leak in March of 2006. This leak resulted in more than 200, 000 gallons of

crude oil spilling onto the fragile tundra and a nearby frozen lake and was the largest spill to ever occur on the North Slope.

A second 1, 000-gallon leak occurred shortly after the first, in August of 2006. Although it was small, the second leak led to the shutdown of oil production in the east side of Prudhoe Bay until BP could guarantee that the pipelines were fit for use. 4 Regular routine cleaning of the pipes is simple and would have prevented the 2006 oil leaks in Alaska. Nevertheless, in October 2007, BP recorded yet another spill near Prudhoe Bay. This time it was 2, 000 gallons of toxic methanol, a deicing agent, which spilled onto the tundra and killed many plants and animals.

In the Northern District of Illinois, BP was charged with conspiring to violate the Commodity Exchange Act and also to commit mail fraud and wire fraud. The fraud involved purchasing more than the available supply of TET propane, and then selling it to other market participants at a price inflated well above market value. This sort of market manipulation is not tolerated in the United States, and BP was forced to pay large fines. The company had to pay $100 million in criminal penalties, $25 million to the U. S. Postal Inspection Consumer Fraud Fund, and a restitution of $53 million.

Additionally, BP had to pay a civil penalty of $125 million to the Commodity Futures Trading Commission. Furthermore, four former employees were indicted in February 2004 for conspiring to manipulate the propane market at an artificially high price. The estimated loss to consumers who paid over market value exceeded $53 million dollars. The violation resulted in a 20count indictment by a federal grand jury in Chicago. The legal, environmental, and ethical transgressions on the part of BP demonstrate

clearly that the company has a history of isregarding the well-being of stakeholders. “ The actions against BP, along with the criminal charges against the four former BP traders, reflect our continued efforts to ensure that companies and individuals that do not follow the law will face consequences for their actions,” said Assistant Attorney General Alice S. Fisher of the Criminal Division. While purporting to be an ethical company, concerned with stakeholder well-being, BP’s violations told a different story.

BP Tries To Repair Its Image

BP took great strides to try and repair its tattered image.

The twenty-first century found stakeholders more wary of companies, especially after decades of repeated violations and misconduct on the part of the oil industry. Oil leaks, toxic emissions, dead animals, refinery fires, wars in the Middle East, rising gas prices, pollution, and dwindling supplies all have combined to paint a very ugly picture of the oil industry as a whole. A central topic of the debate over the future of the world’s energy supply focuses on global warming and greenhouse gas emissions.

One way BP worked to repair its damaged image was by changing its name from British Petroleum to simply BP, and increasing alternative energy offerings in its product mix. John Browne, former BP group chief executive proclaimed that “ we are all citizens of one world, and we must take shared responsibility for its future and for its sustainable development. ” BP was the first global energy firm to publicly announce its recognition of the problem ofclimate change. Browne has publicly discussed BP’s involvement in finding new sources of energy, and has stated that he believes in balancing the needs of development and environmental protection.

While its primary product is still petroleum, BP accepts that global warming is human-made, and it has begun to seek alternative revenue streams in wind farms and other lower-emissions energy sources. The company invests 5 around $1. 4 billion, or 5 percent of its total capital investment, in renewable energy like wind, solar, and biofuels. BP also has worked hard to overcome its negligent image by taking a renewed interest in areas like Alaska, where the company has received a lot of bad press. Every winter when the Alaskan tundra is icy and frozen, a team of BP specialists heads for the remote areas of the Alaska North slope oilfields.

The specialists' purpose is to excavate gravel from the pads on which drilling rigs once stood. They also remove drill cuttings and other waste left behind by the original exploration teams. Most of the excavated gravel can be reused immediately or treated on-site. The remainder of the gravel is either processed for future use or is ground down before it is injected back into the ground. The specialists aim to do as much as possible to return the sites to their original tundra state. This includes selective replanting and reseeding of the area. The specialists are guided by scientists and engineers from BP's remediation management team.

They have already completed approximately 40 percent of a clean-up and restoration exercise agreed upon by BP and the state of Alaska. The Sag Delta 1 site on the Beaufort Sea Coast and the Kuparuk 24-12-12 site by the Kuparuk River are two examples of the sixteen sites already sanitized. The specialists will return on a regular basis until their job is complete. The estimated cost of BP's future efforts will be close to $250, 000, 000.

BP Works To Improve Sustainability

To adapt to a changing world, BP launched its Alternative Energy business in 2005. While still a small part of its overall company at $1. billion in investments, BP sees “ going green” as an increasingly important part of its business, which it will expand as it becomes more profitable to do so. Wind BP has over 500 megawatts (MW) of installed capacity, with 432 MW in operation. Starting in 2008, BP began full-scale commercial operation in conjunction with wind farms across the country, including Cedar Creek in Colorado, a 274–wind turbine outfit. BP’s installed wind capacity has the potential to supply power to 6 million homes. Solar In order to affordably expand its solar capacity, BP signed agreements with numerous solar panel producers in Asia.

BP has installed only 4 MW of solar panels in the United States, which went to Walmart stores in California. It does 70 percent of its solar business in Europe where demand is higher. BP also has developed two of the largest solar power plants in the world in Spain, projects that will supply some energy to up to a million homes. As BP has continued its worldwide efforts to reduce greenhouse gas emissions, it has introduced a new solar-driven pump system at the Moxa Gas Field site in Wyoming. Two kinds of pumps are located at each of the 460 wells: one pumps methanol, while the other irculates heated glycol to prevent the freezing of equipment, which is a recurring problem in the harsh fields of Wyoming. BP 6 has installed 230 solar-driven methanol pumps to help reduce the amount of natural gas needed to run the site. BP estimates that by using these new solar pumps, it has reduced Moxa’s annual natural gas needs by over 48 million cubic feet,

which amounts to around $200, 000 in savings. The new pumps also create a safer work environment, as they reduce the risk of gas cloud related hazards for the employees. BP has plans to install 460 additional solar-driven glycol pumps.

By replacing all of the pumps, BP has the potential to completely eliminate the use of natural gas at the Moxa site, making the pumping system virtually greenhouse gas free. Biofuels Biofuels have received a lot of negative press for their contributions to diminishedfoodsupplies and increasing food prices, and for causingdeforestationin places like the Philippines and Brazil where it has become increasingly profitable to plant biofuel stock like sugar cane and palm. However, BP sees biofuels as a significant part of its energy portfolio for the next two decades, until better alternative energy sources are perfected.

BP became the single largest foreign stockholder in a Brazilian bioethanol company when it purchased a 50 percent stake in Tropical Energia S. A. The company’s facility in Goias state, Brazil, has a capacity of 115 million gallons of sugarcane bioethanol. BP has also been working with Dupont to develop biobutanol, a biofuel with higher energy content than bioethanol. BP’s push in the alternative energy sector prompted the creation of a special purpose entity (SPE) with Verenium Corporation, a leader in the development of cellulosic ethanol, a fuel that is still in its infancy but that many hope can be the future of biofuels.

Both partners hope to speed the development of cellulosic ethanol, and to one day make it commercially viable. Cellulosic ethanol is a renewable fuel produced from grasses and nonedible plant parts, such as sugarcane waste,

rice straw, switchgrass, and wood chips. Although at this point it is much more difficult and energyintensive to produce than corn or sugarcane ethanol, many believe that, as thetechnologyimproves, cellulosic ethanol will provide such benefits as greater per-acre yields and lower environmental impact.

Another potential benefit is that cellulosic ethanol will not affect commodity or food prices, since it uses only waste products. If all goes as planned, this venture will help stimulate the development, production, and consumption of cellulosic ethanol over other types of liquid fuels. In 2009, BP announced that it would extend its partnership with Verenium to develop the world’s largest facility for producing biofuels from inedible plants. The large oil company acquired a 50 percent stake in licensing Verenium’s technology.

Over a year later, after the worst oil spill in U. S. history, BP bought Verenium Corp. ’s cellulosic biofuels business for $98. 3 million. This bought BP’s investment in alternative fuels to approximately $3 billion since 2005. According to the CEO of BP Biofuels, BP remains dedicated to becoming a leader in the cellulosic biofuel industry. Carbon Sequestration and Storage Although it is a tremendously expensive undertaking, many experts believe that one of the best ways to control greenhouse gas emissions is through carbon sequestration and storage (CCS). CCS 7 nvolves capturing greenhouse gas emissions from smokestacks and other sources of the pollutant and pumping the gasses deep underground to empty oil or gas fields or aquifers. BP has been researching CCS since 2000, and opened the Salah Gas Field in Algeria for experimentation in 2004. BP captures and stores up to 1 million tons of carbon dioxide per year at Salah, which is

equivalent to removing 250, 000 cars from the road. BP hopes to do the same thing at Hydrogen Energy, its joint venture with Rio Tinto to develop low-carbon-emissions power plants for Abu Dhabi and California.

While questions remain about the long-term effectiveness of CCS (no one knows for sure if the CO2 stays underground, or whether it eventually leaks out), many energy companies such as BP see it as a promising technology. Other Energy-Saving Measures Beyond alternative energy sources, BP is also looking to save energy through better planning and implementation of its many operations around the world. The BP Zhuhai (BPZ) PTA plant is setting an example by using more efficient forms of energy. This development of more efficient, cleaner energy and the reduction of CO2 emissions is an ncreasing priority in China. Many companies in China still use heavy oil and coal for fuel. For the past four years, BPZ has worked to set new standards and make a greater contribution in this area. A sequence of heat recovery projects has allowed the plant to optimize the use of steam as a way to reduce liquefied petroleum gas (LPG) consumption significantly. This has greatly saved energy and reduced emissions. Since 2005, BPZ has reduced its CO2 emissions by 35 percent and has reduced the use of LPG by 48 percent.

Additionally, by reducing fuel consumption, BPZ also has reduced the road safety and operational risks associated with delivery and unloading of LPG. BPZ is recognized locally and regionally for its promotion of environmental values. It has set an environmental standard for other companies to follow. The company also is a prime example of how being green can be cost-efficient. It has achieved millions in net savings for BP. BP is also working in

Algeria to help sustainability. The Algerian business unit of BP is striving to lessen groundwater and soil impacts from its operations.

The company is doing this by incorporating liability prevention processes early in the process, even into the planning stages of operations. However, in a desert area, where sandstorms and other disastrous weather patterns are common, planning ahead and anticipating problems is not easy to do. The BP Algeria team, working in conjunction with the state oil company Sonatrach and Norway's Statoil, has established two primary environmental objectives:

- to impact the environment as minimally as possible,
- to take actions swiftly to correct for any potential liabilities from earlier operations.

BP's Remediation Management Liability Prevention team supports the Algeria team and Sonatrach in identifying potential causes of soil and groundwater problems incurred at any point during BP's operations. Together, they have been able to identify problems by conducting a series of site visits, doing risk-analysis work, administering prevention assessment tool surveys, and identifying improvement opportunities in the area of operations. All parties involved have been able to synthesize their findings into a long-term plan for the management and prevention of environmental liabilities in Algeria. 8

BP Reaches Stakeholders With Its Sustainability Programs

In addition to its Alternative Energy program, BP also has implemented environmental awareness programs in Britain to help stakeholders understand the impacts of global warming and the importance of

sustainability issues. BP is trying to help the environment by making people more aware of their carbon footprint. BP Educational Service (BPES) initiated the distribution of the Carbon Footprint Toolkit. It is an award-winning program designed to helphigh school studentsunderstand the effects of climate change and their own carbon footprint.

Developed in conjunction with teachers and BP's experts, the toolkit enables students to examine their school's carbon footprint and to help develop carbon reduction plans for their schools. The Carbon Footprint Toolkit was originally developed as a response to teachers' demands that came out of a series of " green" workshops that BP held. Available free of charge to all high school students and their teachers, the Carbon Footprint Toolkit has been a successful initiative for BP. Available only in Britain, the kit is available in 80 percent of all British high schools.

The toolkit received a prestigious award for e-learning at the International Visual Communications Association (IVCA) awards in 2007. Follow-up research on the tool has shown that the toolkit has greatly helped to increase the profile of BPES and also has raised the level of trust and recognition for BP'seducationinitiatives. In addition, the proportion of teachers surveyed who judged their students to be environmentally aware increased from 62 percent to 89 percent after using BPES resources.

THE CODE OF CONDUCT

To help deal with BP's growing reputation for ethical misconduct, BP's Ethics and Compliance team organized the creation, publication, and distribution of a company code of conduct in 2005, entitled " Our Commitment to Integrity. " The code was distributed to BP employees around the globe and is also

publicly available online at the BP website. Given the multinational nature of the BP business, the code seeks to unite its diverse employees behind a set of universal standards of behavior.

The cross-functional team that drafted the code of conduct faced many major challenges, like how to agree upon and communicate consistent standards for all BP employees regardless of location, culture, and language. They had to devise a plan to make the code a one-stop reference and guide to individual behavior at BP. It would have to cover everything fromhealthand safety to financial integrity. The code of conduct was the largest mass communications exercise ever attempted at BP.

Work began in 2004 with a large-scale benchmarking exercise. The ethics and compliance team, with the help of many external specialists, studied, in great detail, the codes of fifty-two other companies. Using the information collected from preliminary research, a team of senior regional, functional, and business segment leaders worked to develop the content of the BP code. A preliminary version of the code was tested in global workshops involving more than 450 BP employees from all levels of the company. All BP employees must read the code.

To facilitate understanding, it is translated into languages as diverse as Mandarin, German, Azeri, and Arabic. The company also holds awareness meetings to 9 help employees understand the contents of the code. Perhaps the most important role of the code is that it put in writing, for the first time, BP’s ethical and legal expectations. BP intended to give clear guidelines for individuals covering five key areas: health, safety, security, and the

environment; employees; business partners; government and communities; and company assets and financial integrity.

It is now clear that BP’s code of conduct was not equipped to prevent the worst environmental disaster along the Gulf Coast. Regardless of the degree of comprehensiveness, ethical codes should always reflect upper management’s desire for compliance with values, rules, and policies. Most importantly, legal staff has to be called upon to ensure that the code correctly assesses key areas of risk. In the case of BP, apparently the code did not effectively address specific high-risk activities within the scope of daily operations.

The BP code of conduct was not designed to resolve every legal and ethical issue encountered in daily operations, but the code should have helped employees and managers deal with ethical dilemmas in high-risk areas by prescribing or limiting specific activities. We have no evidence that the BP code was communicated effectively or reinforced throughout the organization.

The Worst Oil Spill In U. S. History

Despite the efforts of BP to repair its image, safety violations continued at its facilities. In early 2010, U. S. regulators fined the oil giant $3 million for safety problems at an Ohio factory.

The Occupational Safety and Health Administration (OSHA) found that workers might be exposed to injury or death should explosive or flammable chemicals be released at the factory. This violation was not an isolated event. Just four months earlier, OSHA had fined BP a record $87 million for

not correcting safety problems that were identified after the 2005 explosion at its Texas refinery. These instances of safety violations culminated with the explosion at the Deepwater Horizon oil rig. In addition to lost lives, the disaster would result in millions of gallons of oil released into the Gulf of Mexico for over three months.

The Explosion

It all started with an opportunity to tap into a new, highly profitable oil reservoir. The reservoir was dubbed “ Macondo,” after the doomed town in Gabriel Garcia Marquez's novel " One Hundred Years of Solitude. " The Macondo appeared to contain a vast amount of oil, and BP was excited over the find. However, the dreary name of the reservoir was perhaps a foreshadowing of what was to come. To tap the well, BP hired an oil rig from Transocean, Ltd. By April, the project was behind schedule, but BP was convinced it would lead to success. Then disaster struck.

On April 20, 2010, an explosion rocked the rig. The rig caught fire and sank on April 22, killing eleven employees. At first, BP did not appear to be overly concerned about the accident as it did not own the rig. However, as owner of the oil, it soon became apparent that BP would be held responsible for the disaster. The situation quickly worsened. The oil well that was being drilled, located nearly a mile below the surface, was damaged in the explosion. Thousands of gallons of crude oil were gushing 10 into the Gulf of Mexico, quickly creating an environmental catastrophe.

BP sent submarine robots down onto the seabed in an attempt to activate the switch-off valve on the well. The entire process soon became a public relations nightmare, with BP sending out conflicting messages. One company

official informed Fox News that BP had successfully activated part of a failed blowout preventer, which was slowing the oil flow. It soon proved false. BP’s underwater robot did in fact trigger a device, but the device did not stop the flow of oil. BP immediately started drilling other holes in the hopes that they would relieve pressure on the damaged well.

However, the next few months would unleash a series of failed efforts by BP to stop the flow. Soon as much as 2. 5 million gallons of oil poured into the Gulf of Mexico daily, causing large amounts of damage to marine life. Oil washed up on the coasts of Louisiana, Texas, Alabama, Mississippi, and Florida, wrecking havoc on the livelihoods of fishermen and others who depended on the ocean for income. A constant stream of finger pointing took place among the administration and the public as everyone tried to decide who bore the most blame for the tragedy.

With all eyes on BP, company actions were scrutinized, and often criticized, throughout the duration of the disaster.

Failure to Manage Risks

The main question on everyone’s mind after the disaster was how BP could have overlooked such a risk. Indeed, the ocean rig did have safety systems in place, but it was later revealed that these systems were not as safe as they could have been. For instance, the rig did not have a remotecontrol shut-off switch that would have been used as a last resort in a major oil leak disaster—and which could have made all the difference after the Deepwater Horizon explosion.

At the same time, it must be noted that neither Transocean (the owner of the rig) nor BP were breaking any laws by not having one; the Minerals Management Service (MMS), a federal agency charged with oversight of the nation’s offshore oil-and-gas industry, did not require such a device as long as the drilling rig had a backup control system that could shut off the well in case of an emergency. Some suggest that this represented a lapse in regulatory oversight on the government’s part. However, this cannot explain other lapses in BP’s risk management strategy.

Some suggest that BP cut corners in risk management to savemoney. Although investigations into the matter are forthcoming, evidence implies that safety concerns did exist. For example, records reveal that nearly three of every four incidents that caused federal investigations into safety on deep-sea drilling rigs in the Gulf of Mexico were owned by Transocean. (Although to be fair, Transocean is the largest deep-sea oil driller, and not all of these incidents were determined to be safety violations. As the biggest client of Transocean in the Gulf of Mexico, BP had a responsibility to properly oversee that appropriate precautions were taken to prevent a disaster. Lawsuits are also pending against Transocean for alleged safety failures, including an allegation that the rig’s alarms had been disabled before the blast. Even more disturbing, one of the technicians on the Deepwater Horizon oil rig went so far as to accuse BP of willful negligence. He claims that BP had knowledge that the rig’s blowout preventer was leaking weeks before the explosion but did not halt production.

If true, this would contradict the statement released by Transocean after the explosion, which claimed that engineers had 11 detected no leaks hours

before the explosion occurred. After the explosion, it was found that the hydraulic system in the blowout preventer was indeed leaking fluid, which prevented the system from sealing the pipe. Whether or not the disaster resulted from willful negligence, it is apparent that BP's backup systems were not sufficient to handle such an emergency. BP was clearly lacking in risk management, leading to a downward spiral in BP's image.

What Caused The Explosion?

The primary event that caused the tragic explosion is unknown. However, investigations have suggested that actions which BP took made the well more vulnerable. Some of these actions were approved by the Minerals Management Service (MMS); others, according to the BP well-site leader, did not receive approval. (BP denies that it strayed from its MMS permit.) A Wall Street Journal investigation implies that BP cut short procedures and quality testing of the pipe—tests that are meant to detect gas in the well.

Some experts hypothesize that one of the final actions in installing the pipe —which involved cementing the steel pipe in place—could have been the catalyst for the explosion. Halliburton, the cementing contractor involved with the project, Transocean, and two workers accuse BP of going against industry procedure in the pipe installation. Whether this helped cause the explosion is unclear. What is certain is that drilling fluid and gas began spurting from the pipe, the gas found a source of ignition, and the rig exploded, claiming the lives of eleven workers. The disaster was far from over when it was found that the pipe would not shut off.

Oil began gushing into the Gulf. One of the many criticisms leveled against BP is its decision to use a less costly well design that some Congressional

investigators have deemed “ risky. ” Installation of this design is easier and costs are lower. However, it also provides a better path for gas to rise outside of the pipe. While this did not cause the explosion, investigators believe it may have contributed to the well’s vulnerability. Although BP did not break any laws by using such a design, it ignored safer alternatives that might have prevented, or at least hindered, the accident.

Repercussions of The Disaster

The BP oil spill will have wide-ranging repercussions for both BP and the oil industry as a whole. The financial toll on BP alone will be extensive. The Obama administration is holding BP liable for cleanup costs and damages. Under current legislation, the most BP would have to pay for economic damage would be $75 million, as mandated by the Oil Pollution Act of 1990. However, due to the severity of the disaster, legislators have discussed passing a new law to raise the cap to $10 billion. As of July 2010, response to the spill costs approximately $100 million a day.

The U. S. also announced it would be launching criminal and civil investigations into the spill. To successfully prosecute, the government must show that the disaster resulted from a deliberate flouting of the law or from negligence. If nothing else, BP may be charged with violation of the federal Clean Water Act (which would constitute a civil, not criminal, charge). If found guilty, BP could pay up to $4, 300 per barrel of oil released in the spill. Some believe this could amount up to $18 billon in fines. Nor does the disaster bode well for other oil companies.

Drilling contractors and oil service companies suffered massive losses in their businesses due to plummets in market value. BP share prices plunged

over 50 percent after the accident. The Obama administration also issued a moratorium on deepwater and oil gas drilling in the Gulf of Mexico, although it was immediately challenged and faced numerous obstacles. With one-third of America’s oil coming from the Gulf, the repercussions stemming from the spill will likely be felt for years to come. One of the most immediate consequences of the disaster was the resignation of BP CEO Tony Hayward.

Despite an impressive track record, including a net profit of $6. 08 billion in the first quarter of 2010, reductions in company costs, and a seemingly dedicated attempt to “ turn things around” at BP, Hayward became the face of the worst oil spill in U. S. history—and perhaps the scapegoat as well. Although it is extremely difficult for CEOs to maintain their positions after disasters of such magnitude, experts believe that it was Hayward’s highly visible blunders and his lack of visible empathy that triggered his downfall. They chalk his resignation up to afailureof effective crisis management.

For instance, his comments on how he wanted “ his life back” and his attendance of a yacht race made him appear unsympathetic to the Gulf crisis. According to senior associate dean at the Yale School of Management, CEOs must understand “ the inextricably intertwined roles ofsymbolismand substance in the office of CEO today. ” With the heavy criticism Hayward had generated, the company felt that he would not be able to restore BP’s credibility.

The Long Road To Recovery

It took nearly three months and several wide-scale efforts to contain the oil leaking into the Gulf.

In the interim, millions of marine animals died in the oily waters, oil soaked beaches black, and hundreds of people that depended upon the Gulf of Mexico lost part of their income. BP tried different approaches to plug the leak, including pumping in heavy drilling mud. No solution was effective enough to curb the onslaught of crude oil leaking into the waters. In August 2010—over one hundred days after the disaster began—BP plugged the leak and dug relief wells to effectively " kill the well. " This time BP took precautions, digging two relief wells in case one of them failed.

The oil leak was finally sealed; however, the damage done to stakeholders was not over. Over 640 miles of shorelines across several states were " tarred" with oil. Fortunately, the oil began biodegrading quicker than expected due to bacteria, which fed on the crude. However, this did not even begin to address the loss of wildlife or the amount of oil lurking beneath the water's surface. It also did not help the thousands of stakeholders whose livelihood depended on the Gulf. To address the latter problem, BP set aside a $20 billion escrow fund to compensate businesspeople suffering from the disaster.

A government-appointed administrator oversaw the claims. As always, though, compensating the right people for the right amounts is tricky. For example, how far from the coast should a claimant be in order to have an effective claim? What about those who were indirectly harmed, such as a restaurant owner who may have suffered from a drop in tourism? Also, what about the many workers without sufficient documentation to prove they worked in the Gulf? Although the escrow fund will serve to compensate some individuals for their losses, others will likely receive little or no

compensation. Another issue that concerned the public was safety. Were the waters safe to swim in? And what about the wildlife? Many were worried about the safety of consuming seafood along the Gulf coast. It is largely unknown whether the oil and chemicals will have long-term effects on the seafood's quality. As a result, some officials are calling for BP to fund a long-term seafood safety plan to monitor the region's fisheries. BP will have to go through these various stakeholder demands and decide which ones are reasonable for them to meet.

As BP demonstrates, it is often not enough for global companies involved in an ethical crisis to just pay for immediate costs like compensation; they often have to pay for testing, additional safeguards, and environmental degradation in both the short and the long term. BP has embarked on several initiatives to meet stakeholder demands. To pay for the spill, BP recently sold billions of dollars worth of assets. Part of the proceeds will go toward the recovery process. BP also announced that it would establish a $20 billion spill-recovery fund. However, the challenge for BP goes beyond immediate costs.

With its role in the disaster along with its public relations blunders, the company's reputation has undergone a severe blow. BP has virtually become synonymous with oil spill in the minds of many stakeholders. It will take significant long-term efforts to restore the image of BP. Yet efforts are already underway. After the ousting of BP CEO Tony Hayward, American Bob Dudley took over operations. Several analysts believe that by choosing an American chief executive to lead the company, BP is signaling its commitment to the country and its government.

While BP originally appeared to downplay the catastrophe, Dudley freely admitted that the incident was a serious “ catastrophe” and that the company was committed to the cleanup. BP hired former Federal Emergency Management Agency chief James Lee Witt and his public safety and crisis management consulting firm to help manage the incident and establish plans for long-term recovery. Some analysts believe that BP will have to undergo a brand overhaul in order to regain its reputation. Whatever BP decides to do, it will likely take years to restore its trust with stakeholders.

Conclusion

From the beginning, BP proved that it was able to overcome significant obstacles. It went from near bankruptcy to being one of the largest energy companies worldwide. BP has experienced a range of ethical issues, the most well-known stemming from the company’s own negligence and misconduct. The company worked hard to overcome its negative image through sustainability initiatives and social responsibility. However, BP’s emphasis on environmental responsibility backfired when it was involved in one of the worst oil disasters in U. S. history. Developing an ethical organizational culture requires an examination of the risks to various stakeholders. In the case of BP, they failed to put in the safeguards to protect employees, local communities, suppliers, and the viability of many industries including fishing, tourism, and the sustainability of the offshore drilling industry. Risk assessments require attention to issues such as employee safety, an issue the company failed to address, as well as the importance of protecting the natural environment.

After the Exxon-Valdez disaster, there should have been a heightened 14 awareness of offshore drilling to understand that every safeguard necessary must be taken to protect the environment. BP’s outsourcing of its offshore drilling did not eliminate its responsibility for the outcome of any drilling accident. As a global corporation, BP has the responsibility now to engage in a complete recovery and restoration of the environmental damage as well as economic damage to various stakeholders.

This process is going to take a very long time and the ramifications of the damage may not be completely resolved in our lifetime. In the future, there is no room for BP to take shortcuts or try to cut costs in using best practices for its production operations. In addition, BP has a new responsibility to try to compensate stakeholders for the damage that has been done and provideleadershipin safety and sustainability. In the past, BP has failed to take required action to make sure accidents and environmental damage did not ecur. In this case, the future survival of BP will be determined by its ability to commit to a socially responsible approach and stakeholder engagement.

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