

The operation of british petroleum commerce essay



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This project examines the operation of British Petroleum (BP) in the light of established international business theories. Two major aspects are considered; Globalisation strategy and corporate social responsibility & ethics. Although certain failings are highlighted BP is assessed to perform optimally on both counts. A conclusion is drawn and certain recommendations with respect to the style of research are made in the final section.

Report Contents

The report assesses the operations of British Petroleum to establish to which degree the operations of BP are in line with related management theory. The project starts with a brief introduction on the business of BP. This sets a stage and develops a context for further discussion. The second section discusses the research method adopted in the preparation of this project. Several methods are explored and the most feasible selected as the method of choice. The third section looks at BP's operations in two respects; international trade and globalisation strategy, and corporate responsibility and ethics. The final section of the project is a conclusion that summarises the main themes highlighted in the work, noting its achievements and limitations and sets the stage for future research. At this stage some recommendations are also made.

Introduction

British Petroleum (BP) is a global Oil and Gas company with its headquarters in the UK. It is one of the world's largest businesses by virtue of its revenues. On its corporate website, it terms itself as 'one of the world's largest companies, providing its customers with fuel for transportation, energy for <https://assignbuster.com/the-operation-of-british-petroleum-commerce-essay-essay-samples/>

heat and light, retail services and petrochemical products for everyday items'. As of its financial year end 2009, it owned 22400 service stations around the globe, it owned operations in 30 countries around the world, it employed 80, 300 people in different countries, it owned 16 refineries around the world (with the biggest in Houston Texas), it produces 2. 3 million barrels per day and owned oil reserves of about 18. 3 Billion barrels (BP web 2010)

Research Methods

This project aims to assess the operations of BP. It takes into focus two major issues in global business and strategy; International trade & globalisation strategy and ethics including aspects of corporate social responsibility. The management literature proposes several qualitative research methodologies (Bryman, 2004). These methodologies include; surveys, questionnaires, case studies, focus groups, experiments and interviews (Bryman, 2004). Pursuant to the aims of this project, a case study approach is employed in which I consult several documents which discuss management theory (detailed in Hill, 2009) and I examine how their application in practice basing on the case of British Petroleum. I use the BP website as a core source to derive information for this purpose. Given the lack of resources, other research methods such as interviews, questionnaires and focus groups are impractical. The next section details the operations of BP and the related theoretical underpinnings.

British Petroleum's globalisation strategy

Globalisation refers to the current trend where the world is becoming a global village by effectively inter-knitting, national boundaries are being

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relaxed and countries are increasingly dependent on each other for survival. Globalisation presents significant opportunities to businesses as well as challenges. Firms that can cope with the trend enjoy larger markets, cheaper resources and therefore higher profitability. Firms that are unable to compete efficiently are faced out.

As highlighted above BP is a global company with a highly acclaimed globalisation strategy. The success of this strategy could be attributed several (three main) factors as discussed below.

First-mover advantage

The history of BP can be traced back to the establishment of the Anglo Persian Oil Company, a subsidiary of the Burmah Oil Company in 1909. This firm explored the Persian Gulf for many years and was converted to the British Petroleum company after the Second World War. Scanty reports show that the firm expanded tremendously by 1960 developing its operations beyond the Persian Gulf into North America. Most importantly it established a significant presence in the North Sea by being the first company to find Oil in Alaska (BP web, 2010).

The above indicates the length to which BP has gone to establish itself as one of the world's biggest and most successful companies.

New Trade theory suggests that first movers can benefit enormously from certain economic and strategic advantages in terms of operations. The theory argues that ' for those products where economies of scale are significant and represent a substantial portion of world demand, the first

movers in an industry can gain a scale based cost advantage that later entrants find almost impossible to match' (Hill, 2009. p 187).

First mover advantage can potentially explain the structure of the Oil and Gas industry. The industry is made up of few big players and many small players in the Western world where competition is free. In other countries such as Kuwait, Saudi, Russia, China, Iraq and Qatar competition in the industry is restricted and the major oil exploiters are government owned.

BP has established itself in most of the western world due to its first mover advantage. It is able to cut costs in its operations and derive benefits from economies of scale and scope. Many firms can compete effectively in Oil exploitation, exploration, extraction and refining, and therefore they turn to engage in the provision of support services such as distribution or the derivation of chemicals for other manufacturing industries.

Competitive advantage

Porters findings on national competitive advantage can be extended to understand why BP locates in the regions it does. BP is a global firm but has operations at varying degrees in about 30 different countries world wide (BP web, 2010). Despite operating significantly in 30 countries, its products and services are available in over 100 countries (BP web, 2010).

Porter's diamond asserts that ' the degree to which a nation is likely to achieve international success in a certain industry is a function of the combined impact of factor endowments, domestic demand conditions, related and supporting industries and domestic rivalry' (Hill, 2009. p 191).

Hill (2009) argues that based porters theory a profit seeking firm should localize its operations in those countries where such activities can be performed optimally.

BP operates in Africa, Asia, Australasia, Europe, North America and South America.

In Africa, it operates in Joint Ventures with firms in Egypt, Angola and Algeria. Its choice to operate only in joint ventures in this country can be explained by the political economy of these countries. These countries cannot be termed as ' full democracies' and are often susceptible to civil crisis. Operating as a joint venture, curbs the firm's risk in the event of a political crisis but allows it to enjoy the revenues to be derived from its operations. It also has a huge presence in the Southern regions of Africa but in these regions it engages more with the marketing of its solar energy concepts. This region is rich in natural resources (sunshine) but the development of energy networks is very poor. The countries in this region rely heavily on hydroelectricity which is usually not sufficient to provide for industries and households.

BP also operates as joint ventures in Asia with operations in Pakistan, Vietnam, Indonesia, China, South Korea and Malaysia. It manufactures lubricants and solar panels in China and India where labour is cheap.

BP does not explore petroleum in Australasia. Its operations in this region are geared towards the provision of solar energy.

BP operates as a stand alone entity in much of Europe. Its operations in Russia are partly owned (joint venture) by a Russian company. It has major

exploration and production facilities in Canada, Trinidad and Tobago, Venezuela and Columbia. These regions are rich in natural gas and oil necessitating BP's localisation to the areas.

Products

Hill (2009) noted that Raymond Vernon developed the product lifecycle theory after his realisation that firms had to keep innovating in order to maintain a demand for their products and ensure growth in revenues. The theory can be used to explain the globalisation trends, innovation drive and product mix of British Petroleum.

BP currently produces a wide range of energy products including oil, natural gas, wind energy, solar energy, bio fuels and petroleum based lubricants.

Two decades ago, its primary product was Oil. Research and development in the industry has led to the introduction of cleaner and more sustainable forms of energy. These forms of energy are widely regarded as the future of the Oil and Gas industry. Speculators believe that at some point in time oil will be faced out as coal was faced out with the discovery of oil. BP has realised the fact that oil as a product has reached its maturity stage and its demand might diminish with the advent of new forms of energy. The firm has taken a colossal position in the new energy market by running a major portfolio of energy products representing the mix of all bespoke and innovative new forms of energy.

Unlike televisions for example, Oil cannot be re-engineered and further developed. Innovation by modification is therefore difficult. BP has turned

the focus on energy efficiency i. e. researching and developing ways in which energy can be saved. Instead of devising 'faster or stronger' energy which might be impossible BP has turned the focus to the development of equipment and usage techniques that will save energy through low consumption. This encompasses innovation that fuels the demand for its products.

Ethics and Corporate Social Responsibility

As Hill (2009) emphasized ethical issues in international business are brought about by political, legal, economic and cultural differences in between countries- 'what is considered normal practice in one country might be considered unethical in another' (p. 124). The ethical challenge, I will argue, is significantly increased for global firms. BP for example operates in all the different continents of the world. In keeping with Hill's argument ethics is relative and context dependent. In certain countries, it is ethical to employ young people. In the UK, all employees must be above the legal age of 18 to gain full employment. The legal age changes significantly between countries varying from 16 to 21. Most multi national firms deal with this challenge by devising a set of corporate values which govern their operations in all regions. BP web (2010) argues that the company is driven by four major values; progressive, responsible, innovative and performance driven.

In terms of being responsible, BP asserts that 'We are committed to the safety and development of our people and the communities and societies in which we operate. We aim for no accidents, no harm to people and no damage to the environment'. This commitment can be seen in the fact that <https://assignbuster.com/the-operation-of-british-petroleum-commerce-essay-essay-samples/>

BP reporting covers all aspects beyond financial reporting including health, safety, human rights, environment and energy.

BP is at the forefront of the cleaner energy debate. It does its bit by engaging in energy saving initiatives and constantly researching on cleaner ways in which energy can be produced and delivered. It has diversified strongly into the green energy industry engaging in the production of liquefied petroleum gas, fossil fuels and renewable energy.

A major part of corporate ethics that has been pervasive in the management literature in recent years is corporate social responsibility. Hill (2009) argues that multinational corporations such as BP ' have power that comes from their operations and their ability to move production from country to country'. Considering for an instance the revenues generated by BP annually, I find that the corporation's revenues is higher than the GDP of many countries. Social responsibility advocates that managers should consider more than just the economic consequences of their decisions (hill, 2009). More importantly, importance should be placed on the social consequences of decision making. The European commission defines corporate social responsibility as ' A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (EC website, 2010). It basically refers to the company's interactions with its surrounding communities and looks at how the company strives to promote development and social cohesion and participates in maintaining the environment within such communities. A firm's community is a major stakeholder of the firm and thus needs to be considered. BP's financial reporting incorporates major

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aspects such as its social responsibility, its strive for cleaner energy, its contributions towards preserving the environment and its strive to improve sustainable extraction of energy. Communities take corporate social responsibilities seriously especially when it comes to Oil and Gas firms. This is largely as a result of the potential dangers that can arise from their operations with these communities. Recent crises have ranged from large explosions with severe casualties to major spillages with the destruction of flora and fauna.

-A review of the BP 2010 Oil spill crisis

BP faced a ' deep water horizon drilling rig explosion' which killed 11 of it's off shore workers and injured 17 other workers. The rig gushed out over 5 million barrels of crude oil into the Mexican Gulf between April and July 2010. The spill was catastrophic and so were its effect on wild life, the fishing industry, the tourism sector and the surrounding neighbourhoods. In response to this BP set up a crisis management program. It publicly apologized for the distress it caused and undertook to foot the clean up costs. The company has currently set up a \$20 Billion dollar fund to manage the after-effects of the crisis. During the crisis, BP showed effort employing several techniques to attempt to stop the leakage. It also arranged a compensation plan for those affected by the crisis.

This attests to the fact that BP takes its corporate social responsibility and ethics very strongly.

Hill (2009) also notes the social contributions or social investments of BP in Algeria. Hill notes that BP realised its communities in Algeria lacked clean <https://assignbuster.com/the-operation-of-british-petroleum-commerce-essay-essay-samples/>

drinking water and created two desalination plants to produce clean what for the public. To add to this, the company provided water cans to help residents transport water from plants to their homes.

Conclusions

Summary of findings

This study has examined the operations of BP in the global context to see how certain management concepts are applied in practice. Two aspects; globalisation strategy and corporate social responsibility were reviewed. BP is found to have a sophisticated globalisation strategy which it has fortified over the years. This helps it to compete efficiently and to remain one the world's leading corporations. Again, BP is found to have a robust stance towards corporate social responsibility and ethics. Its industry is hazardous and it is prone to corporate disasters such as spills and explosions. BP has managed to keep these to a minimum and when they do occur, BP has taken necessary steps to manage the crisis and limit the damage

Limitations

This work is limited in the fact that it strongly relies on public information sources to assess the operations of BP. Several aspects could have been better scrutinized and invaluable insights drawn through other research methods such as interviews with key workers and focus groups to draw varied opinion.

Due to the limitations in space (number of words) the aspects discussed can not be reviewed in greater detail.

Future research & Recommendations

This research has examined BP's operations in light of established theory but has not confirmed if such a method of operation is optimal. It might be interesting to investigate whether the product strategy, globalisation strategy or their approach to ethics and corporate social responsibility affect their performance or contributes significantly towards the achievement of organisational goals and objectives. The limitations highlighted above also provide avenues for future research into the area.

Several theories have been propounded in the management literature. Their understanding will only be facilitated by examining how these theories are applied in practice or by investigating the contributions of such theories to management practice. In light of this argument, this form of study is encouraged.