

# Bp global: future strategy and sustainability



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British Petroleum (BP) is the world's one of the largest and leading petroleum product manufacturers. It has headquarters in London. It operates from 29 countries. Though it has faced safety and environmental controversies in the history of its operations it could overcome all negative images through a concrete focus and consistent efforts towards sustainable developments.

BP operates throughout the world in locations, terrains and climates that are tremendously diverse and frequently challenging. However, BP aims to minimize its environmental impact by taking a systematic and disciplined approach to operations, using sophisticated risk assessment techniques that directly inform its business plans. Therefore, BP is incorporating its environmental management systems into the group-wide operating management system that helps BP to set priorities for operations based on assessment of the key risks, including those related to environmental and social performance.

BP believes this integration will promote greater efficiency and consistency across the business. It has formulated a set procedure to conduct, at least annually, a formal process to identify and assess risks and emerging issues, including environmental and social issues. Main aim of BP is to manage environmental and social risk during every phase of its operations viz. launching new projects, carrying out day-to-day operations and bringing a project to a close.

BP strives to minimize the impact on the environment by identifying risks during the project set-up and using technology to reduce or remedy any impacts. The firm is investing in a broad portfolio of alternative energy

businesses and R&D, while advocating a carbon price and public funding to support such new technologies. The firm's greenhouse gas efficiency achievements will be vulnerable to a shift towards unconventional fossil fuels. Climate change creates both threats to BP through market changing technologies, and opportunities, such as increasing natural gas sales at the expense of coal. BP partly manages these risks by applying an internal carbon price to new projects and through its policy influence. Through its clean energy investments BP is hedging against dramatic changes to the world's energy mix.

In this assignment, we have taken up the BP's sustainability report of 2009 and studied its activities enabling it to achieve sustainable growth. We also assessed its capabilities, current position and forecast its future sustainable growth.

British Petroleum Limited (BP) – Introduction

Website: [http://www. bp. com](http://www.bp.com)

Location of Headquarters: 1 St. James's Sq., London, SW1Y 4PD, United Kingdom

Sector & Industry: Basic Materials & Energy

### **Nature of Business:**

Oil & Natural Gas Business

Wind & Solar Energy Business

Bio-fuel Business

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Energy Security & Energy Diversity Business

Technology & Partnership

## **Products:**

BP petroleum and derived products

BP service stations

Air BP Aviation Fuels

Castrol motor oil

ARCO gas stations

am/pm convenience stores

Aral service stations solar panels

## **Historical Background:**

BP (NYSE: BP) is one of the world's largest oil and gas companies in terms of production capacity. In 2009, the company's exploration and production segment produced approximately 2.53 million barrels of oil per day as well as 8.48 million cubic feet of natural gas per day while the company's refining throughput averaged 2.28 million barrels/day. BP expands its production capacity through improved rig equipment and technology as well as expansions into other countries. As of April 2009, BP's operates in 29 countries including Mexico, Russia, Algeria, and many others in the Middle East and Africa. While BP's global reach gives the company an ability to access "untapped" reserves, many of its operations are exposed to political

risk in those countries. In particular, BP's Russian operations faced significantly managerial problems in 2008, but these tensions eased in January 2010 with the appointment of Maxim Barsk to CEO.

BP has been involved in a number of environmental, safety and political controversies during its history, including the 1965 Sea Gem incident and the 2010 Deepwater Horizon oil spill.

Its primary listing is on the London Stock Exchange and it is a constituent of the FTSE 100 Index. It has a secondary listing on the New York Stock Exchange.

### **BP on the Sustainability:**

Before we predict BP's position in future, let us first have look in to its present position and future plans for protection of environment, commitment to society and efforts towards economical growth and sustainable development.

### **Present:**

BP operates responsibly with better corporate governance and management systems.

BP strives to deliver secure and affordable energy while addressing the global issues and climate change.

Efforts are made to develop large scale business towards the production of alternative energy sources with low carbon emissions.

BP has given utmost importance to safety & reliability of operations. But the accidents and fatalities have not been on reducing trend, which can have a major impact on its sustainable growth.

BP focused on low carbon or green house gas emissions, biofuels, and operations that can emit fewer pollutants.

People Management: There is clear focus on training & development of the workforce and reward and recognition system but there is no clear evidence of integration of people development with its diversified business requirements.

Community Initiatives: BP has made efforts to build a strong mutually beneficial relation with society wherein they work.

### **Future Plans:**

In BP's business strategies especially for the sustainable growth, there are many ways forward, but certain parameters are clear. The response must be integrated, global and balanced in terms of social, economic and environmental solutions.

BP plans to focus on major public policy issues such as climate change, environmental protection and human rights.

The future plan is to show that everything that is done, and every product and service that are provided, is delivered in an environmentally and socially sound manner. The challenge is to adapt, to become more sensitive to the wider world with change in environment.

The future plan mainly boils down to the environmental protection and economy growth.

BP needs to integrate its future strategies in all its business units to bring the transparency for verification against a common factor on a single platform.

There is a clear focus on developing value leaders in future with strong HR strategies. The focus is more on integrating the HR policies across its operations to improve the skills and knowledge of the people. IT must also help BP to develop future leaders who can be visionary to achieve sustainable growth.

Even though future plans of BP clearly focus on economy development, workforce development and environmental excellence but the community development appears to be in the last bench of the agenda as the concrete evidence of plans to reach Phase 4 or 5 of the sustainability model is not available with respect to community development.

### **BP Today:**

Today BP displaying the following characteristics:

Systemic plan to integrate human resource functions to reduce cost/increase efficiency

Focus on value add training/development opportunities i. e. waste reduction, lean principles

Undertakes community projects where cost-benefit can be exemplified.

## **BP – The Good Days**

By the early 1990s, a newly envisioned BP appeared to be adopting a strategic approach (Phase 5) towards sustainability. Like its competitor Shell, BP too strategically placed itself to move beyond petroleum. It committed itself in inventing alternative energy sources and technologies. It also committed itself to the Kyoto Protocols and greenhouse gas emissions. BP also ventured into social and community sustainability efforts, working towards enhancing the efforts in the respective local communities.

These efforts were incorporated to its corporate strategy as part of five broad spectrum of business policy: ethical conduct, employees, relationships, health, safety, and environmental performance, control and finance. BP's vision was to market itself as the greenest fossil fuel producer in the industry: Their "Beyond Petroleum" won two PR Week "campaign of the year" awards and the gold "Effie" from the American Marketing Association. Ogilvy, the firm behind the slogan ironically still boasts of "Beyond Petroleum" as a "successful case study" in its website.

## **BP – CSR Disaster:**

Unfortunately for BP, the carefully marketed CSR plan went awry with the gulf oil spill. The oil spill taught the world rather brutally, that the heart of the relationship between BP and society did not lie in honest commitments. Chastened by the Exxon Valdez disaster, BP along with every player in the oil industry became rather religious on CSR initiatives.

CSR actually poses a problem in such a situation in that it muddies the waters. Beyond Petroleum, the marketing campaign was the result of



painstakingly long plan spread over years-but that was all it was, a carefully constructed marketing plan for external stakeholders that suggested CSR was at the heart of BP, but did little to show any evidence of it. BP's isn't out there to lead the green revolution. Their actual business is to make money – for its shareholders; in BP's case by producing energy, mainly from fossil fuels. Today, not only has their motto come under external pressure, but has also instigated soul-searching within BP's ranks.

Today's marketplace demands a lot more from corporations to establish long term sustainability. It should begin with a basic principle: A successful company must embrace corporate responsibility in all its forms-both internal and external. While BP did an excellent job externally for many years (see Sustainability Portfolio below), it requires much more in-depth introspection from management to get the internal vision re-aligned.

## **Strategies of BP**

Today BP has a sound platform on which to achieve their commitment to combine growth with the discipline of performance and strategies. So the concept of sustainability is already part of business today. But it also demands a deeper, broader, more creative level of engagement than conventional environmentalism.

Climate Change, demographic change and poverty are the three major trends that will set the corporate sustainability worldwide The BP has challenge to create a future energy mix that meets three of these objectives – sufficiency; security; and sustainability of the energy. But there are hard political choices involved in agreeing to cut emissions and accepting the

implications for energy. The company drives the necessary innovation or deployment of emerging low carbon technologies in the operation.

In the drive for efficiency, BP will collaborate with the vehicle manufacturers on advanced engine technology and lubricants and provide better and cleaner transport fuels through less energy intensive processes and increase the energy efficiency of their facilities and equipment

BP was the first energy company to be widely recognised as accepting the obligation to act on climate change. They have invested nearly \$4bn in low carbon business since 2005 and commitment to invest \$8bn in alternative energy in coming years. BP are creating long-term options for the future in new energy technology and low-carbon energy businesses. They will be also enhancing capabilities in natural gas, which is likely to be a vital source of relatively clean energy during the transition to a lower-carbon economy and beyond.

BP will utilize the best talent inside and outside the company to develop and apply the technology associated with their business challenges. They have the right people in the right places with the right skills. They have developed a new leadership framework and extensive training programmes to build the professional skills of employees, BP will focus on operations and fostering a culture of operational excellence and continuous improvement across all their activities. BP is a diverse and inclusive company where everyone can achieve their potential.

BP will be able to demonstrate clearly how technology improves performance and improve the safety factor. BP will able to reduce its hydrocarbon

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emissions to water and hydrocarbon emissions to air, the burning of waste gas, carbon dioxide emissions, emissions of non-greenhouse gases, such as nitrogen oxides and sulphur oxides significantly.. BP will be using its landholdings as a base for solar generation of electricity.

BP focus is on four key businesses: biofuels, wind, solar and carbon capture and storage. Their goals are ‘ no accidents, no harm to people and no damage to the environment’. Company will work to achieve this through consistent management processes, ongoing training programmes, rigorous risk management and a culture of continuous improvement.

Community development must be focused on BP as an integral part of CSR rather than initiating just as a compensatory act for the damage caused to public and environment. As a company with extensive operations in developing nations, some whose BP’s own revenues surpass, it needs to carefully manage aspects such as human rights approach and maintaining ethical business practices. BP would be stick with its commitments towards safety concerns, security, safe operations and accountability in all the locations.

BP shall plans to further improve operating and cost efficiency right across the company, from refineries and marketing operations in the downstream to procurement, drilling and project management in the upstream efficiency and reduce costs for profit growth. BP will develop the culture of innovation in all their operations. BP continues to access new business opportunities, with new agreements in other countries.

To increase its financial flexibility, BP shall plans to reduce its debt, now about \$23 billion, to \$10 billion within 18 months. BP has to establish new ways of communication with all stakeholders to improve the brand image and reputation across the globe.

BP shall view the corporate governance as a strategy for long run sustainable growth and survival. They should also ensure that board should be structured appropriately to ensure the implementation of rules, regulations, ethical, moral principles and obligation in all activities.

It is essential to achieve high standards in all three elements of the triple bottom line agenda – economic, environmental and social performance. Focusing on any one at the expense of the others is not sustainable.

BP shall build competitive advantage by procuring and multiplying resources create abilities over them and developing synergy of resources and capabilities. Core competencies enable BP to formulate strategies and draw strategic action by converting competencies into profitable business activities.

### **Suggested Future Strategic Concepts for BP:**

BP should plan to re-conceive its product portfolio and the market it is being catering to till date. Taking a holistic view of the market, BP should mould the goods to cater to the ‘ energy’ needs of the community and not just oil or natural gas.

Presently BP defines its productivity by production rate i. e. MT/annum.

However, we would suggest that real productivity of BP product can happen

when the firm follows up its product till its life cycle. It has already started activities in this direction by entering into strategic alliance with vehicle manufacturers. But it needs to take shape. Actual productivity definition for BP should be “ Amount of energy converted to actual use by the community per MT of fuel provided by BP”. Say for example a Diesel Engine operated by Heavy Fuel (a product of BP) operates at about 30 to 35% efficiency. 10, 000 Kcal of Energy provided by the oil is converted to just 3500 Kcal of another form of energy which again is not utilized to 100%. Hence BP should redefine productivity so that the benefit is directly transferred to the community. Such activity would be a win-win situation from BP as well as society at large.

BP's one of the strategic management thoughts should be to secure its own future competitiveness. Given the finite life of natural fossil fuel, BP should start its activities in ' thinking differently' on each different use of fuel. Let us take an example of transportation. All vehicles use fossil fuel. Scientists have already come out with hybrid cars, solar cars, compressed air cars, etc. BP should actually go a big way in developing “ Anti Gravity Cars”. We all see UFOs and Flying Discs, etc. Can this earth not produce such vehicles? This is no fancy idea, BOAC have a specific R&D drive for such vehicles. They already have achieved some success lifting about 3gm material. Ultimately, we aim at developing competencies by BP in a wider scope of business which would then not get jeopardized due to depleting finite resources.

Improvement in Corporate Governance has to reinstate the confidence in community which has shaken up due to past disasters. The pace of expansion activities has overshoot the governance speed. Here comes the role of strategic leadership. Two of the key qualities of an effective leader

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are to 'anticipate' and 'envision'. BP needs to provide more stress on these two aspects.

We are aware that as and when there is a need, the fossil fuel prices are raised and there is no one to question them. BP should analyze in further details as to what extent the suppliers contribute to the competitive dynamics of oil business (this is one of the key pillars of the Porter's 5 force model and extremely relevant one for BP). A simple coordination between the oil rig, VLCC and met department can effectively reduce cost to BP substantially. Many times this is not done because there is no stringent specific target or cap on total cost of product/MT. This effort will not only help BP outperform its competitors, but also can pass on the benefit to the customers for benefit of the community.