

Who is to blame for the deepwater horizon rig incident?



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On the 20th of April 2011 explosion at Deepwater Horizon rig in the Gulf of Mexico killed 11 workers and led to the largest oil spill in the petroleum industry's history.

Apportionment of blame is likely to be contested in the law courts for years to come. Who - i. e. which stakeholders - do you consider has to share some responsibility for the accident - or do you consider it an ultimately unpreventable accident, in today's global economy?

Trying to get out of the PR wars on the oil spill, 4 month after the tragedy on September 8th, 2010, BP issued its own internal 234-page report. BP cited at least eight errors of judgment and equipment failures that caused the explosion that sank the rig. BP concluded that " a complex and interlinked series of mechanical failures, human judgments, engineering design, operational implementation and team interfaces" contributed to the incident.

The company accepted only shared responsibility for the explosion and pointed fingers at its contractors - Halliburton, which provided cement for the blown-up Macondo well, and Transocean, the owner of the Deepwater Horizon. Transocean assailed the BP report as " self-serving," contending that BP's " fatally flawed well design" set the stage for the rig explosion 50 miles off the Louisiana coast. Halliburton, which did the well cementing, said it found a " number of substantial omissions and inaccuracies" in the report and " remains confident that all the work it performed was completed in accordance with BP's specifications."

BP's internal investigation report was met with criticism by watchdog groups who questioned the company's motives. Wenonah Hauter, executive director
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of non-for-profit organization Food & Water Watch told IPS News Agency: “BP is distributing the blame and deflecting responsibility for the incident so they can justify their continued operation in the Gulf”.

“Rather than accept the blame and financial consequences for its disaster, BP is continuing to point fingers at everyone it can,” said Kieran Suckling, executive director of the conservation group Center for Biological Diversity. “BP is clearly trying to limit its financial liability by blaming other companies and denying there was criminal negligence,” Suckling said. “If the Department of Justice concludes that BP was criminally negligent, its fines under the Clean Water Act will quadruple from 1,300 dollars per barrel to 4,300 dollars. That is more than a 10-billion-dollar difference.”

One month after the accident on May 21 President Barack Obama established the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. The Commission examined the relevant facts and circumstances concerning the root causes of the Deepwater Horizon explosion and developed options to guard against, and mitigate the impact of, any oil spills associated with offshore drilling in the future. This included recommending improvements to federal laws, regulations, and industry practices. A final report on the Commission’s findings was presented to the President on January 12, 2011.

According to the report, “the Macondo blowout was the product of several individual missteps and oversights by BP, Halliburton, and Transocean, which government regulators lacked the authority, the necessary resources, and the technical expertise to prevent.

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Halliburton and BP's management processes did not ensure that cement was adequately tested. Halliburton had insufficient controls in place to ensure that laboratory testing was performed in a timely fashion or that test results were vetted rigorously in-house or with the client. In fact, it appears that Halliburton did not even have testing results in its possession showing the Macondo slurry was stable until after the job had been pumped. It is difficult to imagine a clearer failure of management or communication.

BP, Transocean, and Halliburton failed to communicate adequately.

Information appears to have been excessively compartmentalized at Macondo as a result of poor communication. BP did not share important information with its contractors, or sometimes internally even with members of its own team. Contractors did not share important information with BP or each other. As a result, individuals often found themselves making critical decisions without a full appreciation for the context in which they were being made (or even without recognition that the decisions were critical).

Decision making processes at Macondo did not adequately ensure that personnel fully considered the risks created by time- and money-saving decisions. Whether purposeful or not, many of the decisions that BP, Halliburton, and Transocean made that increased the risk of the Macondo blowout clearly saved those companies significant time (and money). There is nothing inherently wrong with choosing a less-costly or less-time-consuming alternative-as long as it is proven to be equally safe. The problem is that, at least in regard to BP's Macondo team, there appears to have been no formal system for ensuring that alternative procedures were in fact equally safe."

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The report summarized that “ the accident of April 20 was avoidable. It resulted from clear mistakes made in the first instance by BP, Halliburton, and Transocean, and by government officials who, relying too much on industry’s assertions of the safety of their operations, failed to create and apply a program of regulatory oversight that would have properly minimized the risks of deepwater drilling. It is now clear that both industry and government need to reassess and change business practices to minimize the risks of such drilling”.

BP’s claim about disaster in the Gulf of Mexico to be the “ unavoidable accident” was actually driven by a reckless pursuit of profits and selfish disregard for our planet.

QUESTION 2: If you were Tony Hayward, how would you have acted in the immediate aftermath of the accident?

It is easier to say what I would have done being a CEO of BP after analyzing what Tony Hayward did wrong during the incident in the Gulf.

BP’s handling of the Deepwater Horizon crisis under its former CEO Tony Hayward may be seen as a “ textbook” case of how not to manage an enterprise in a period of reputational crisis. On June 17 Tony Haywood stonewalled the House Energy and Commerce Subcommittee on Oversight and Investigation by refusing to provide information he knows as chief operating officer. He was recorded telling a camera man to “ get out of there” during a photo-op on the shores of Louisiana.

Hayward's summer of PR disasters culminated in his public declaration that "I'd like my life back," and he went to participate in the JP Morgan Asset Management Round the Island yacht race off the Isle of Wight in the UK, while Gulf residents struggled with the effects of the spill. He was widely criticized for his comment which was perceived as selfish and he later apologized for it on BP America's Facebook page.

President Obama's chief of staff Rahm Emanuel wryly observed on American network news that "I think we can all conclude Tony Hayward is not going to have a second career in PR consulting." In an interview on NBC on 8 June, 2010, Barack Obama said that Hayward "wouldn't be working for me after any of those statements", referring to the remarks BP CEO made following the spill.

In a lecture at Stanford Business School in May 2009 Hayward declared to the business students that "...our primary purpose in life is to create value for our shareholders." Later his statements that focused only on the individual corporate remit have also been quoted outside the context of the full lecture. Hayward's point of view is in line with Milton Friedman who wrote in his famous 1970's article in The New York Times Magazine, that "the one and only social responsibility of business, is to increase profits for shareholders."

General idea of Friedman was that only people can have responsibilities, but not businesses. The people who are hired by business owners have a responsibility primarily to their employers, to meet their desires which in most cases are profits. General public view the company as a whole

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representative and if CEO's mistake leads to an error is social judgment, the public will judge the whole company, not just this person.

It has been proven time and whilst CSR has yet to be harnessed to create a significant positive difference to profits, a negative policy can destroy profits. The costs BP saved by taking risky decisions at Deepwater Horizon have finally gone to many other stakeholders - residents of the Gulf, government, business owners. "BP cut corner after corner to save a million dollars here and a few hours there," said Henry Waxman, whose committee was investigating the Deepwater Horizon accident in the US. "And now the whole Gulf Coast is paying the price."

Some theorists believe that CSR stops businesses performing to their full potential and crippling the economy. My opinion is that an effective CSR policy together with efficient marketing and clear business strategy could help a business grow to larger profits whilst also benefitting society.

Ironically enough, Tony Hayward was one of the key proponents of CSR in 2005, giving a speech about corporate responsibility and its increasing importance at BP. This was when Lord Browne was CEO and CSR was gaining more attention. But since mid-2007 many factors have weakened under Tony Hayward's leadership, including contractor fatalities and greenhouse gas emissions. Environmental and safety fines spiked upward in 2009 and hydrocarbon flaring has nearly doubled since 2007.

Summarizing the answer, if I was a CEO of BP I would spend all my time in the US to see what's happening on a regular basis and actively communicate with US administration for coordination of clean-up efforts. I would not lie
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about the size of catastrophe from the beginning and will not try to bribe ecologists in attempts to hide the actual result of the oil spill. The leader is always needed at the time of crisis which Tony Hayward has failed to be.

QUESTION 3: If you were a member of the BP board what would you be recommending at this point that BP should do about the disaster unfolding in the Gulf of Mexico?

BP lost \$95 billion in market capitalization within a few weeks of the Deepwater Horizon explosion, with its stock priced back to 14 years. There was a clear disproportion between the company's market losses and even the most pessimistic estimates of cleanup costs - that never exceeded \$30 billion - this was an indication of the costs of this reputational risk crisis to BP. While firms today recognize the value of brand definition as a competitive advantage in the marketplace, reputation remains an often underestimated component of a company's value.

Corporations experiencing a public crisis, such as BP in 2010 undergo what is termed "reputational distress." This concept was first coined by Stephen Greyser, Professor Emeritus at the Harvard Business School, and describes the critical period following a crisis event when a company's management is at risk of losing the confidence of the markets. Reputational distress can result in significant impact upon a firm's market capitalization, as well as its corporate reputation, in correlation to how the crisis response of the firm's management is represented in the markets and the mass media.

Brand Finance Plc, the world's leading brand valuation consultancy, estimated that the fallout from the explosion at the Deepwater Horizon rig <https://assignbuster.com/who-is-to-blame-for-the-deepwater-horizon-rig-incident/>

has caused BP's brand value to plummet by \$7.4bn, representing a 61% fall (or £72m per day). Having spent many millions on promoting its "Beyond Petroleum" strapline and positioning itself as the most environmentally friendly of the oil companies, this disaster has had a highly detrimental impact on its brand value globally, especially in the US.

In contrast to BP, the actions of Johnson & Johnson in the case of the Tylenol tampering scandal represent a "best practices" example of how a firm can successfully manage reputational risk. Employing a crisis strategy defined by aggressive transparency, Johnson & Johnson retained public and market confidence, resulting in the value of its shares quickly rebounding from immediate losses and the Tylenol brand actually becoming the industry leader shortly thereafter. Reputational risk management can therefore represent not only a challenge, but an opportunity.

Traditionally in CSR the Bottom Line refers to the financial and economic responsibility of the company that is making profits. Recently introduced by John Elkington (1994) Triple Bottom Line model gives a wider view of responsibilities of organizations which obviously encompasses financial aspects and also environmental and social impacts of the company. The utilization of the triple bottom line allows companies to evaluate their success not only in their economic field but also in the environmental and social ones.

BP currently remains a member of United Nations Global Compact. This is a high-profile CSR scheme, which requires firms to adhere to 10 principles which require to take a precautionary approach to environmental challenges,

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promote environmental responsibility, and encourage the development of clean technology. The oil spill in the Gulf of Mexico appears to provide evidence that BP has not adhered to the principles and could undermine its credibility as a signatory to the Compact.

According to Mary Ann Ferguson, professor of PR at the University of Florida, “ when a company has a good reputation, people will appreciate its high-fit CSR program. But if BP tries to use high-fit CSR to further its public image, it may do itself more harm than good. Before you develop any high-fit CSR program, evaluate your company’s reputation first so you don’t just wreak further harm”. Once the company name is tarnished, high-fit CSR tends to produce only skepticism. In other words, it backfires.

If I was a member of the BP board at the time of the scheduled board meeting in London in May 2010, first of all I would recommend that the board meeting should be convened in Louisiana, preferably carrying part of it on one of the support vessels, engaged in the oil spillage liquidation operation, so that all board members can see for themselves, what has happened and received first hand information from the emergency operations crew. The second part of the board meeting should have been carried on the shore in Louisiana, and representatives from the key stakeholders in US such as regulators, environment protection agencies, NGOs, fishing community, should have been invited to this meeting. This little step, which wouldn’t cost much would have helped to change the public perception of the company’s approach to the problem.

Secondly, Tony Hayward should have been removed by the board at this meeting, and a new interim CEO with specific drilling and disaster management experience should have been appointed at this time, showing BP's dedication to liquidate the disaster, thus bringing someone with hands-on approach instead of discredited CEO. At this time I would also suggest that the company start providing accurate estimates of the amount of oil spilling from the well, instead of trying to deceive the media and professionals. BPs move with lowering estimates of the oil spillage has done more damage than good. The inconvenient truth is less harmful than the sweet lies.

The next step would be stop putting blame on subcontractors Halliburton and Transocean and start working together trying to find fast and solid solution of the problem. BP looked really silly with its biased internal report which has put most responsibility for the disaster to its contractors. Wasn't it BP - the owner of the rights to the well, who selected those contractors in the first place? I am sure that BP has done their due diligence before hiring these companies.

Last, but not least is to start paying serious attention and investing significant funds into disaster liquidation in the communities along the Gulf. BP has to draw attention of primarily US as well as world media to the efforts which company is undertaking in the sea and on the ground along the affected coast. Capping the well is no doubt a high priority, but dealing with the local stakeholders and environmental damage is no less important task, which provided to the company as being one of the most difficult ones.

Stakeholder management is equally important, and saving the environment
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and providing other opportunities to the people which have lost their income source is critical. If I was a member of the board of BP at that time, I would put as much efforts and funding into this exercise as I would into capping of the well, if not more. Such proactive approach would help BP in the future when dealing with individual or class lawsuits, coming their way, as US is one of the most litigious countries in the world.

QUESTION 4: Why do you think BP attracted such opprobrium?

Hayward, and BP in general, initially downplayed the spill, stating on 17 May 2010 that the environmental impact of the Gulf spill would likely be “ very very modest” and calling the spill “ relatively tiny” in comparison with the size of the ocean. On 27 May, Haywood changed his assessment, calling the spill an “ environmental catastrophe” in an interview with CNN. Hayward earned the nickname “ Tone-Deaf Tony” for his far from the truth assertions.

Then after the explosion, BP denied there was a leak until it became painfully obvious. When they could no longer hide that fact, they low-balled the estimate of the leak at 5, 000 barrels a day, which is probably low by a factor of 20.

When Hayward met with members of the U. S. Senate shortly after the accident, he asserted that BP intended to meet its obligations up to its \$75 million liability cap under the U. S. Oil Pollution Act. Hayward’s assertion that BP was protected by limited liability under U. S. law, coming at a time when thousands of fishermen and tourism workers in Gulf states were being laid off due to the oil spill, so angered the senators with whom he met that within

days legislation was introduced in the U. S. Senate to raise the damage cap facing BP from \$75 million to \$10 billion.

BP sprayed more than 1 million gallons of chemical dispersants Corexit 9500 and 9527 into the Gulf since the oil spill began in a reckless effort to make the oil “ disappear” from public view. BP threatened clean-up workers they’d be fired if they spoke to the media, also the company ordered workers showing up with respirators and other protective gear to remove it or be fired. Cleanup workers have been complaining of dizziness, nausea and other symptoms ever since then.

Dispersants only alter the chemical and physical properties of the oil, making it more likely to mix with seawater than deposit on the shoreline. So what the dispersants do is re-direct the oil, making its impact perhaps less so on birds and shore-dwelling animals, but more so on fish, coral reefs, oysters and other marine life that live in the deeper waters. Also, when the dispersants mix with the crude oil, a third far more toxic product is produced called “ dispersed oil” which has been shown to be more toxic than the sum of its parts. Toxicologists can only guess what the full extent of the damage will be, and it’s likely it won’t show up in full for years or decades.

Before BP could stop the oil leaking at the bottom of the Gulf of Mexico, it unleashed \$100 million in ad spending, largely on network TV, to stem the damage to its image. But it also started spending heavily where it had never spent much before: buying ads in Google’s search results. Nearly \$3. 6 million in the month of June alone were spent by BP, which pushed the company into the upper echelon of search advertisers, in a league with

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AT&T, Expedia, Amazon and eBay. When people searched for “oil spill” they’ll be directed to BP’s damage control page that shows the company’s “Gulf of Mexico Response” and cleanup efforts, instead of the massive amounts of damage that was still ongoing.

In the CNN interviews, Deepwater Horizon workers described a corporate culture of cutting staff and ignoring warning signs ahead of the blast. They claimed BP routinely cut corners and pushed ahead despite concerns about safety. The rig survivors also said it was always understood that you could get fired if you raised safety concerns that might delay drilling. CNN interviews also revealed that BP had ordered a shortcut on the day of the explosion designed to speed drilling, as the rig was five weeks behind schedule and one day of its operation had an estimated cost of \$750,000.

All these facts are not surprising as BP is no stranger to environmental crime. Over the past two decades, BP subsidiaries have been convicted of three crimes in Alaska and Texas, including two felonies. Also BP holds the dubious honor of receiving the stiffest fine in history for work safety violations – 760 fines as of June 2010, while Exxon Mobil has had just one. In 1991 BP was cited as the most polluting company in the US based on EPA toxic release data. The company has been charged with burning polluted gases at its Ohio refinery (for which it was fined \$1.7 million), and in July 2000 BP paid a \$10 million fine to the EPA for its management of US refineries.

During the last couple of years before the Gulf accident BP became more profitable: Tony Hayward received a 40 percent pay increase in 2009 based on BP’s “improved performance.” The company announced earnings of \$5.6

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billion for the first quarter of 2010, more than double the same quarter in 2009. But BP failed to fix the one problem that continues to get it into trouble: a reactionary management culture that puts an emphasis on cutting costs and efficiency while neglecting preventative maintenance. BP has been chronically unable or unwilling to learn from its mistakes according to analysts, competitors and former employees.

QUESTION 5: Looking ahead 3-4 years, how do you think the disaster will affect BP? Will it: (a) have no significant, long-term impact on the business? (b) Result in BP becoming a much smaller company? (c) Result in BP being bought by the Chinese, Qataris etc or merged with another international oil company? (d) Be the catalyst for BP to move irrevocably “ beyond petroleum” and becoming a new form of global energy business, based eventually in renewable energy?

The BP oil spill has set a new precedent for both environmental damage and corporate irresponsibility. According to BP official “ there was a good reason why the Macondo well was being drilled in the first place. It’s because the world badly needs the oil and gas that reside beneath the seabed of the Gulf of Mexico, the Atlantic and other oceans in order to meet inexorably growing energy demand”. BP pushed technology to the limit in the remotest reaches of Alaska and the deepest waters of the Gulf of Mexico - “ the tough stuff that others cannot or choose not to do,” as Tony Hayward once put it.

Last year there was a serious debate as to whether the Deepwater Horizon incident will lead to bankruptcy for BP. Project failures such as the Deepwater Horizon can have enormous consequences on the value of BP

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shareholders, including many pensioners in the UK and current and past employees and may even jeopardize survival of the enterprise.

BP have been paying not only for all environmental and economic damages from the blowout, but will also be facing years of claims, negotiations and litigation. The company is still facing legal suits from Edinburgh and Merseyside pension funds for the loss of value that emanated from an Alaskan pipeline spill in 2006. Gulf of Mexico claims will last much longer. According to Bloomberg, BP took charges totaling US\$40 billion in the second and third quarters of 2010 to account for the cost of the Gulf spill.

The company announced in July 2010 it would sell between \$25 billion and \$30 billion of assets, and has sold fields in Argentina, Colombia, Pakistan, the U. S. and Vietnam. BP interests in Algeria, Alaska's Prudhoe Bay and Canadian pipelines may be next up on the block. According to offshoreenergytoday.com, since taking charge in October, new CEO Bob Dudley has taken asset sales to \$22 billion to pay costs from the worst US oil spill, reorganized management and cut the deal with Rosneft to give the company access to Russia's untapped Arctic reserves. The share price has recovered about 60 percent from June's post-spill low, in part on expectations that the dividend will return at 50 percent of the previous level. Recently BP has reinstated the dividend that was suspended after the spill as higher oil prices and improved refining margins lifted its earnings.

It is unlikely that BP will be acquired by other major oil companies ExxonMobil or Royal Dutch Shell. BP executives held talks with a number of sovereign wealth funds including funds from Abu Dhabi, Kuwait, Qatar and

Singapore, for creation of a strategic partnership to avoid takeover. Now BP continues to be Europe's second-biggest oil company and the biggest producer of oil and gas in the US. Financial Times said that " before the accident, the US had been the principal focus of the group's strategy, with deepwater oil production in the Gulf of Mexico at its heart. It was a source of oil and gas reserves in a region with an apparently stable legal and tax framework, and was a place to develop techniques that could then be deployed around the world".

The BP oil spill has brought attention to the issue of greenwashing. This term was coined by New York environmentalist Jay Westerveld (1986) and means deceptive use of green PR or green marketing in order to promote a misleading perception that a company's policies or products are environmentally friendly. BP entered the greenwashing playing field spending 200 million dollars on rebranding the company in 2000. BP TV ads were focused on themes of biofuels, alternative energy and carbon footprints, closing with a green, flower-like logo and the slogan " Beyond petroleum."

According to Kate Sheppard, a writer at Foreign Policy (3 May 2010), " despite all BP has spent on rebranding, the company hasn't done nearly as much to move " beyond petroleum" as its campaign implies. In fact, BP has been turning away from investments in nonfossil energy, last year cutting investment in alternative sources from \$1. 4 billion to \$1 billion. Weeks before the spill, BP announced that it was shuttering its solar manufacturing plant in Maryland, it closed the doors of its much-hyped UK Alternative Energy headquarters in 2009. The company brought in \$73 billion in revenue <https://assignbuster.com/who-is-to-blame-for-the-deepwater-horizon-rig-incident/>

in the first quarter of 2010, but only about \$700 million of its business was alternative energy sources like wind and solar. The company has also spent a lot of time and money convincing political leaders that offshore drilling is clean, safe, and environmentally friendly — while at the same time actually fighting against safety measures that might have prevented the horror in the Gulf.”

Green Energy Reporter said that BP plans to invest \$1 billion in 2011 in its renewable energy business, roughly the same amount it invested last year. In 2008 BP was awarded a satirical prize, the “ Emerald Paintbrush” award, by Greenpeace UK. The award was given to BP in order to highlight its alleged greenwashing campaign. Critics point out that while BP advertises its activities in alternative energy sources, the majority of its capital investments (more than 90%) continue to go into fossil fuels linked with major environmental challenges on a global scale.

BP will definitely not make steps to becoming a new form of global energy business based on renewable energy until it can get the same tremendous profits from oil and gas. After the incident Bob Dudley has identified improving BP’s safety practice and performance as one of his highest priorities. As it mentioned in BP’s internal investigation report, it was possible for BP to drill deepwater wells safely. It is vital for the company’s future that it can live up to that aspiration.

In his latest speech on March 08th 2011 at CERA Week Conference in Houston Bob Dudley said: “ BP is sorry. BP gets it. BP is changing. We’re strengthening safety, growing value and working to earn trust”.

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The lesson for large companies is that whilst cost and time savings are certainly key initiatives, senior management and the Board need to ensure that they do not happen at the risk of brand and stakeholder relationships. Only by remembering this disaster and pushing for the truth to be brought to the surface - the truth about what BP was hiding - we can prevent a similar event from occurring in the future.