

# Strategy and performance in british petroleum



Best Practise Approach is a universal set of HR practices which when applied to an Organisation, improves performance (Beardwell & Claydon, 2010).

Resourced – Based View Approach is focusing on the internal resources of an Organisation under different forms of competition (Boxall & Purcell, 2003).

## **1. 2 BP’S BUSINESS STRATEGY**

After the oil spill in April 20, 2010, BP decided to adopt new strategies to improve safety such as:

Improve Performance and Reward: BP would measure performance and reward based on safety, silent running and operational risk management (Pfeifer, 2010).

New Leadership: Leadership was cited to be essential to improve BP’s industry safety record. “ Until safety is driven from the top and not just from HSE department, the necessary change will not happen” (Askeland, 2010).

**Improving Safety Culture: BP is creating a “ new safety division with the authority to oversee and intervene in the company’s operations around the world”(Wong, 2010).**

## **1. 3 RELATING HR MODELS TO BP’S BUSINESS STRATEGY**

Reflecting on HR models, BP appears to be adopting ‘ best fit’ approach in improving performance and reward; improving safety culture via ‘ best practise’ approach and deploying ‘ resource-based’ view approach for new leadership.

Therefore, it can be deduced that BP adopted ‘ best fit’ approach based on organisation strategy and linking this to HR strategy of improved employee performance. In addition, BP adopts ‘ best practise’ approach in creating a safety department thereby relating sets of HR practises to improve performance of BP operations. It can also be deduced that ‘ resource-based’ approach was adopted by internally appointing a new leader to improve performance.

Newly appointed BP CEO, Bob Dudley gave a speech on 25th October, 2010, that BP will “ learn from and apply best practice approach in the organisation” (Wong, 2010). Does this suggest BP is adopting Best Practise?

Disadvantages of ‘ best practise’ are its sheer diversity, weak collective issue of work organisation and employees’ voice (Boxall & Purcell, 2003).

Disadvantages of ‘ best fit’ are employees’ interests are overlooked, some firms are good all-rounder so HR practices unlikely to be based on one strategy, lack of sophistication in description of competitive strategy (Beardwell & Claydon, 2010).

Disadvantages of ‘ resource-based’ view are: it focuses on internal context of the business, ignores value and significance of common baseline characteristics across industries (Beardwell & Claydon, 2010).

## **1. 4 BP’S HR ISSUES**

BP’s HR issues identified are: no risk evaluation, lack of employee’s voice, poor training on safety procedures, poor leadership, lack of corporate culture, and poor performance management systems (Campbell, 2007).

## **CONCLUSION**

From the above, the importance of HR models aligning to BP's strategy is imperative as it facilitates improvement of Organisational performance. This ensures appropriate HR models are synchronized to business practices thus increasing opportunity for successful implementation. Moreover, an organisation may choose to utilize one or more combination(s) of HR models to suit specific needs. For instance, an Organisation might adopt 'best practise' approach towards improving performance. This invariably may evolve and align itself to the human resource strategy, thus ending up as 'best fit' approach.

## **SECTION 2A**

### **2. 0 PERFORMANCE MANAGEMENT OF LEADERS IN BP**

#### **2. 1 INTRODUCTION**

The reason for the choice in this area of human resource activity in British Petroleum is due to the identification of poor Performance Management System. The essay aims at examining performance measurement of BP leaders, what approach should be implemented and how performance management will help the personnel achieve high level of organisational performance.

#### **2. 2 WHAT IS PERFORMANACE MANAGEMENT?**

Performance Management is a process which enhances the " effective management of individuals and teams" to achieve high level of organisational performance (Armstrong & Baron, 2005).

Performance Management is a system which relates to every aspect of an organisation set in context of its “ human resource policies, style, culture and communication systems”, and by implication will vary from one organisation to another (Armstrong & Baron, 2005).

Armstrong and Baron argue the principle value of performance management is to give a holistic understanding about the objectives, and an approach in effectively nurturing and leading people who will ensure that it is achieved (Beardwell & Claydon, 2010).

CIPD Fact Sheet on Performance Management (Cannell, 2010), states it should be:

“ Strategic” – it is about broader issues and longer- term goals.

“ Integrated” – It should link various aspects of the business, people management and teams.

And it should incorporate:

Performance Improvement- for Organisational effectiveness.

Training- unless there is continuous professional development of personnel, performance will stagnate.

Behaviour Management- personnel should be encouraged in a way that encourages better working relationships.

## **2.3 BP'S PERFORMANCE ISSUES**

The BP oil spill in the Gulf of Mexico was one of enormous proportions with far reaching consequences within the region.

Based on The Wall Street Journal, between 2007 and 2010, BP in a bid to increase profit margins cut 7500 jobs and trimmed billions of dollars off their operational costs. As a result, in 2008 there was an increase in profit margin of \$25.6 billion and a rating of being the second largest oil company (Hershman, 2010).

Furthermore, BP had experienced mishaps in Texas and Alaska refineries in 2005 and 2006 respectively, and spent a total of \$1.5 billion to address both disasters (Hershman, 2010).

Using the safety metric as a yardstick for evaluation, BP surmised both refineries were improving (Hershman, 2010).

Deducing from Hershman's report, BP used safety and profitability as metrics for performance evaluation.

According to Hershman (2010), a federal regulator suspects that BP chose the wrong metrics. Can we agree to this?

Another approach is to review the metrics and postulate various scenarios that may have led to misjudgement on the part of BP's management when appraising the aforementioned metrics.

## **2. 3. 1 COMMON PERFORMANCE MEASUREMENT MISTAKES**

**Managerial Esteem:** This could result in management focusing on performance indices that have a direct impact on accolades and benefits due to the management team at the detriment of key aspects/ indices within the overall corporate strategy. In the case of BP, safety was measured in the refineries by the number of workers injured (Anderson, 2007)

**Myopic vision:** This is a potentially volatile situation that arises when a management team gives priority to an aspect of the business plan (usually Turnover and Profit margins) over and beyond other aspects (safe working conditions, safe acts). In the case of BP, it cut costs to fuel growth above all, viewed safety as a waste of money and misled regulators (Dugan, 2010).

**Egoistic motives:** This is when a management team decides to measure from its point of view, rather than the worker's view. This usually arises when there is not an all-involving discussion with all stakeholders prior to crystallizing the business plan. From BP's point of view, low number of workplace incident certifies a high level of safety, but the workers worked 12-hour days at a stretch for a month on the Texas refinery, but that does not prove they were being safe (Hershman, 2010).

**Nonchalance:** This probably is the worst oversight of all. A situation in which the management team is not meticulous in following through on all the 'quality control' checks within the several aspects of the business plan. BP executives considered safety measurement a priority, their failure to

appropriately measure safety performance could have been as a result of negligence (Hershman, 2010).

## **2. 4 APPROACHES TO PERFORMANCE MANAGEMENT IN BP**

### **2. 4. 1 KEY PERFORMANCE INDICATORS (KPIs)**

Businesses use key performance indicators to measure progress towards specific and simply monitor trends associated to corporate activities (Baldauf, 2010).

According to Parmenter (2007), KPIs represent a set of measures focusing on those aspects of Organisation performance that are most critical for the current and future success of the Organisation. KPIs are used to ensure that data is collected and interpreted; also indicates where further improvement and resources are required (Marr, 2006). KPIs will be effective in an Organisation if limited to ten (10) according to the 10/80/10 rule (Parmenter, 2007).

In light of this, BP should benchmark with top oil and gas companies whose primary objective is safety. Kuwait Petroleum Corporation is a top oil and gas company whose primary objective is safety. Safety is driven in this Organisation by continual investigation of risks, eliminating them and being well prepared to deal with effectively at early stages to minimize their impact (Al-Zanki, 2008). BP should adopt Kuwait Petroleum Corporation best practices, compare against them, introduce them, modify where necessary into their Organisation (Parmenter, 2007).



BP should adopt the proactive approach using leading indicators which are predictive of future performance results such as numbers of inspection performed. Lagging indicators can also be used in the company's communication to provide an overview of performance such as tracking of injury statistics (Baldauf, 2010).

According to Morrison (2009), examples of KPIs BP can adopt to improve safety performance are:

Number of safety inspections in a month

Percentage of staff with adequate occupational health & safety training

Number of non-conformance with legal standards to safety inspection

Number of reportable accidents per month

Total of hours in safety and health training in the month

Percentage of fatal accidents relative to all accidents

Number of Zero Injuries in a month

## **2. 4. 2 ATTAINING EFFECTIVE PERFORMANCE MANAGEMENT IN BP**

In light of the foregoing, it is imperative to state that the case of BP is not irredeemable. It simply requires a rebirth in outlining the motives of Performance Management from First Principles.

Performance Management by nature should be a strategic, integrated plan that incorporates performance improvement, personnel development and

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managing behavioural patterns as these impacts on every facet of the Organisation with respect to human resource, culture and communication systems (Cannell, 2010).

Using this as a background for discussion, BP should evolve a corporate image that would not only redeem the perception in the eyes of the customers but ultimately mitigate the likelihood of a reoccurrence of disasters in such magnitudes that have plagued the Organisation in the past.

For purposes of this essay, the tools to effective performance management to help the leaders in BP deliver their strategy are laid out into seven key steps which have been derived from the model of Performance Management Components as seen in Fig 2. 4. 2:

These steps are:

Evolving a Corporate goal at Managerial level: This entails a detailed outline of activities, in relation to the job which encompasses the company's intent in terms of performance and corporate culture. On this premise, BP should re-invent itself by emphasizing on the successful culture they have to date and evolve a strategy for preventing and dealing with such disasters in the foreseeable future. This can be articulated into a mission statement (Cannell, 2010).

Evolving an encompassing resolution on performance and development: This is an off-shoot from key step above as it affords BP an agreed benchmark for evaluation of performance in relation to set goals (e. g. profit margins, technological refinement of Operations etc.) and where time-related or fiscal

parameters are not applicable, then agreed performance standards have to be adopted (e. g. Compliance to HSE regulations, Oil industry related working standards) (Cannell, 2010).

**Communication:** It is imperative to ensure effective communication throughout the Organisation by linking the objectives of the individual components within the group. This will involve a well laid out chart of interdependencies between the various business segments clearly showing the functional and performance relationships that all add up to achieving the goals of BP (Armstrong, 2006).

**Ensuring all stakeholders understand their roles:** This is very critical in setting the stage for involvement by both employees and management personnel to the Organisation's goals and objectives. BP Leaders should focus on this as it is common place to find unsettling voices and disparaging behaviour patterns amongst employees that don't have a sense of belonging within the Organisation's broader business strategy. This invariably makes the vision simple for all involved and easier to run with (Armstrong, 2006). According to Hansen (2006), employees perform safely when roles, responsibility and relationships are well defined and aligned to the organisation.

**Training and Development:** This ensures each individual is equipped with requisite skill and ability to meet their contractual obligations within the BP corporate strategy. It will have to go beyond individual training on relevant work sets which in itself are good however; a broader development program

should be evolved with a view towards ensuring Organisational capability of the BP group (Armstrong, 2006).

Ensure continuous review and feedback: This would help eliminate complacency on the part of personnel by integrating such reviews into the entire corporate strategy. It is highly likely that a cohesive and well structured Organisational Chart with a series of checks and balances will detect any issue early enough and draw upon emergency systems just in time to prevent enormous disasters similar to that in the Gulf of Mexico (Cannell, 2010). BP's employees would perform safely if metrics measured make safety an important measure of their performance(Hansen, 2006)

Reward: The non-financial rewards such as guidance on career paths, scope to develop skills and opportunities to achieve are longer lasting and more powerful impact than financial reward (Armstrong, 2006). BP should reward staff based on safety performance and competence as this would encourage job engagement and promote commitment (Hansen, 2006).

**PLANNING**

**MONITORING**

**DEVELOPING**

**REWARDING**

**RATING**

Figure 2. 4. 2: Performance Management Five Key Components: Source: (Anon., 2001)

## **SECTION 2B**

### **2.5 HOW PERFORMANCE MANAGEMENT ENHANCES EMPLOYEES TO DELIVER BUSINESS STRATEGY IN BP**

**LEADERSHIP:** For Performance Management to be effective, Organisational members must accept it, believe it is worth the time and be motivated to use it (Pulakos, 2009).

BP Leaders should recognize that safety requires a concerted effort by everyone, from union and non-union to management (Hansen, 2006). Thus, success depends, first on the top management support for the performance management system (Pulakos, 2009).

**MEASUREMENT AND REWARD:** BP Leaders should use leading safety indicators with lagging incident measures to create a composite metric, which would enable employees and managers to accomplish safety goals and to provide a scorecard to measure their success (Hansen, 2006).

Based on this measurement, BP Leaders can reward employees and managers on excellent safety performance. A key principle of rewarding employees and managers is to link it directly to performance; this will lead to motivation. However, bonuses must not become a routine that employees and managers regard them as just another entitlement (Anonymous, 1997).

**COMMUNICATION:** BP Leaders should adopt an effective communication system, informing employees on the clear expectations, planning and gathering undistorted feedback on safety (Hansen, 2006). However, if BP employees are voicing similar concerns about the new performance

management system, a great deal of goodwill should be generated to address the issue. This will show employees that their decision are taken into consideration and thus lead to motivation (Pulakos, 2009).

**TRAINING:** According to Pulakos (2009), employees and managers need to be able and motivated to conduct performance management effectively. Thus, training helps to accomplish both of these objectives. BP leaders should train their staff on safety using the classroom training approach as this gives room for feedback, coaching and development process. An advantage of using the same training content for both managers and employees is that the same information on safety will be received and this can increase trust in how the system should be implemented.

However, another perspective is that BP should train staff at major step of the performance management process as this can be done at different point of the year rather than a full day training prior to the implementation (Pulakos, 2009).

**RECRUITMENT AND SELECTION:** According to CIPD, Talent management is a vital tool which should be aligned to performance management. Talent management is identifying, developing, engaging and deploying individuals with high potential who are of particular value to the organisation (CIPD, 2009). Thus BP should recruit the talents of individuals who would make a difference in the performance of an organisation based on reliability and validity selection tests. This is an essential process as this will ensure the right people with the right skills are at the right place at the right time (CIPD, 2009).

360 DEGREE FEEDBACK: BP Leaders should implement using the 360 degree feedback to get performance information of employees and managers from their colleagues, supervisor and customers (Pulakos, 2009). The feedback provides a perceptive about the skills and behaviours desired in the Organisation to accomplish the goals (Kermally, 1997). This will help increase BP's individuals self awareness and the involvement of the people at all levels of the Organisation. This review system helps improve communication and performance.

## **CONCLUSION**

In light of the foregoing, it would seem obvious that there is not a standardised solution that sufficiently addresses Performance management as KPIs differ from one organisation to another. Furthermore, building on the premise that Performance Measurement is a continuous process, its success is therefore to be hinged on determination, dedication and continuous review through which Organisations can always assess the efficacy of their chosen metrics and not only make modifications (where necessary to ensure goals are being met) but also set higher standards and goals to ensure the Organisation is at the highest levels of performance.