

What was bps strategy prior to the accident business essay



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Deepwater Horizon was an offshore oil-rig located in the Gulf-of- Mexico, owned by Transocean, leased by BP and deployed by Hyundai. 20th April 2010, during the drilling, a tear in the riser-pipe caused an uncontrollable leakage of petroleum, claiming 11 lives, injuring 17 others. The fire fed by the oilfield continued for next 36 hours causing the rig sunk ultimately. Disagreement between different stakeholders caused a delay in taking measures to restrict the oil-leakage. This leakage from the oil-field could only be stopped after 87 days, resulting approx 60, 000 barrels/day of oil-leakage into the gulf-of-Mexico causing irreparable damage to marine and coastal ecosystem. Beaches remain closed, tourism and related business suffered, seafood was contaminated and oil killed marine-life across the US-coast. BP on Nov-'12 agreed to plead guilty to 14 criminal acts related to this event and to pay \$4. 5 billion. The potential fine for the spill under the act is \$1, 100 to \$4, 300 a barrel spilled, (NY Times, 2013). This incident also triggered government, MNCs and environmental agencies to agree upon and device stringent measures on improving the safety of offshore oil-rigs, safeguarding the environment, enhancing the post-disaster measures (OCS report, 2011). this incident damaged the strong portfolio value of BP apart from causing it immense financial loss. Preparedness is of utmost important, a process should be devised and actively in-place to tackle such disasters, in such an environment, strategies originate in formal plans (Mintzberg and Waters, 1995) : precise intentions exist [both government and MNCs] , formulated and articulated by central leadership [government], backed up by formal controls to ensure complete adherence [by MNCs], to increase preparedness for disasters in an controllable or predictable manner- mostly this approach converges towards planned-approach. Despite of BP's commitment towards <https://assignbuster.com/what-was-bps-strategy-prior-to-the-accident-business-essay/>

maintaining readiness to respond on larger-scale, to minimize damaging-effect and facilitate mitigation activities- the magnitude of the deepwater incident was enormous in magnitude and unprecedented which caught BP in its mitigating strategy-formulation. Environmental and social impact assessment is an inherent part of BP strategy (BP, 2013) which analyses the potential risk to environment and on human in the neighborhood of such establishments, though the state-of-art technologies BP failed to assess the risk of this oil-rig. BP lacked in the collaboration with all stakeholders in addressing this disaster. The traditional-way of aerial and satellite imagery in estimating the actual deep-underwater situation failed (Jernelov, 2010). Another failure of BP was to manage the media in restricting the exaggerated and conflicting facts spread across worldwide thus damaging BP's strong portfolio-value.

Strategy Literature Review

We can relate the concept of strategic space (Fiegenbaum & Thomas, 1990) with the Deepwater-horizon disaster; we would map as the first-step the characteristics of the business environment, termed as strategic space.

Three dimensions, a) the levels of organizational strategy (e. g. US government and BP-corporate), b) the strategic decisions making process (e. g. scope, resource deployment), and c) the time period which defines the broad characteristics of the strategic space.

First firms need to invest on a well-designed, technically-sound, and precise research, placed within a comprehensive framework covering initially the stable aspects of group behavior, then moves progressively to theory development and testing of dynamic behavior (Fiegenbaum & Thomas, <https://assignbuster.com/what-was-bps-strategy-prior-to-the-accident-business-essay/>

1990). MNCs and government need to join hand to invest on the study of this incident to identify the root-cause of this failure and then agree to devise enhanced preventive measures for such future incidents. It is clear that traditional countermeasures failed, which necessitates for a new approach of risk-management. In the aftermath of this, US govt is taking significant measures to improve regulatory oversight on offshore drilling (OCS report, 2011). We can see competition as a dynamic process in which firms continually take actions to outperform each other (Rindova et al, 2010), once one competitor faces such disaster the other firm eagerly willing to take the advantage of the situation by airing negative campaign and aggressive advertisement [e. g. as Shell did]. During such disasters we can argue that a firm's decisions – as a series of competitive actions – provides audience with necessary cues in framing impression about it, as well as comparing it to other players in the same market. Firms' competitive actions thus act as a dynamic mechanism for firm specific reduction of ambiguity. Emergence period [of such disaster] on which we focus is relatively short and creates a dynamic environment in which firms [BP] need to make rapid changes in their strategies responding to the changing need of the ground-situation, Rindova et al (ibid). Deepwater-horizon or such incidents are huge in magnitude and poses significant capability to cause damage – we need to introduce -out-of-the-box thinking and improvisation/innovation to devise strategies to fight with such situation – the dynamic nature of such incidents requires prompt action taking capability [in the terms of financial, technological resource].

Insurance [and reinsurance] firms also come under scope during such incidents – their risk evaluation process need to be enhanced and routine check-up should be stringent. Product diversification and size dimensions are two such aspects that needs close inspection while determining the value of such huge installations Fiegenbaum & Thomas (ibid). Having a good strategy and right execution of the same is essential for a good-management (Thompson et al, 2012) – all stakeholders need to have a well-defined strategy in-place to manage such disasters and absolute adherence is needed when calamities occur. The strategy need to be flexible enough to adept itself responding to the actual ground-situation [feedback loop]. A deliberately emergent approach might be useful Mintzberg & Waters (ibid). MNCs need to be made responsible to adjust themselves during the unexpectedly tough business-environment by undertaking strategic defense and approaches that enables them to overcome the adversity Thompson et al, (ibid). But at the same time government also can't escape its responsibilities. Off course a good strategy is essential to obtain and sustain market-position strong enough so that the firm is capable to yield profitable financial performance despite unforeseen events/external factors [e. g. disaster, natural calamity or potential competition].

A review on BP Strategy

What was BP's strategy prior to the accident?

BP being a trusted company adheres to a higher set of standards in everyday work (BP, 2011). Business doesn't occur in vacuum, the place and time is important (Parry et al, 2007)- stakeholder theory (Donaldson and Preston, 1995) emphasizes on considering all stakeholders [in the environment in <https://assignbuster.com/what-was-bps-strategy-prior-to-the-accident-business-essay/>

which firm operates – not only the shareholders' interest] strategy-making. Several stakeholders and their competitive interest are associated with such huge installations. BP needs to respect this and maintain balance among all such groups while making their strategy. BP seemed to follow a deliberate approach until this event.

BP states its objective as 'create value for shareholders' (BP, 2011) – it being a global MNC needs to be responsible towards environment and people in the region it operates. Safety remained top-priority for BP, when disaster happens BP needs to be flexible enough to response to the situation and devise measures to control the aftermath- we observed that they spent three days in discussing the approach. Constructive dialogue with all stakeholders and prompt action in such cases is needed. Government authorities, local-people, environmental-organizations, employee and shareholders, opinions from all should be considered during formulating the strategy – which lacked in the case. This incident also shows that neither government nor BP was prepared to sustain such disaster – this shows an obvious lack from BP's part in conducting appropriate risk assessment (OCS report, 2011). Experts conclude that this disaster could have been avoided, preparedness and prompt-action is pivotal in managing such disaster.

Analysis of BP actions in light of the strategic frameworks

Resource based view

VRIO resources for BP is – its strong portfolio value [inimitable and rare], its technical expertise [valuable and rare], financial and organisational strength [valuable]. BP has lost two of its VRIO resources, resulting from this incident; <https://assignbuster.com/what-was-bps-strategy-prior-to-the-accident-business-essay/>

its brand-value and financial-strength [to pay the huge fine]. BP lacked the technical-expertise to avoid the incident and then failed to restrict the leakage – it lost its valuable and rare resources [infrastructure, human life]. The myth of inimitable technical expertise of BP and its strong portfolio value were shattered by the incident. It is a huge loss for a firm.

Approach based view

BP followed a planned approach in addressing this unprecedented disaster and their lack of being flexible and adapting/enhancing strategy to mitigate this series of events caused the continuous oil-leakage for 87 days. They also lack the coordination with different stakeholders and discussions on approach prevented them three days to take measure. Consensus approach would have been key Mintzberg & Waters (ibid) as they need to take input from US government agencies, environmentalists and other lease-partners to devise the most appropriate damage control mechanism. Flexibility and transparent communication would have been key in estimating the damage and make containment plains where BP failed in establishing consensus and maintain transparency about the actual size of the disaster. A combination of emergent [taking input from all stakeholders] and Umbrella approach would have been reduce the damage. Ideological approach, Mintzberg & Waters (ibid) where collective vision of all stakeholders are respected might have been useful.

Five-Force analysis

BP has strong supplier groups [US government, Transocean, Hyundai] – they are few and supply highly differentiated products so they pose significant

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threat to the industry (Porter, 2008/1979). BP suffered here as in future these suppliers would either expel BP [US govt already did – a ban on future explorations by BP in US] or impose stringent conditions. BP loses its production capability directly affecting its market-share, posing a moderate threat to BP from strong buyer perspective. Substitutes and new-entrants are of minor threat but rivalry is of major impact. Shell initiated aggressive campaign against BP after this incident, causing more damage to BP brand-value.

Conclusions/Recommendations

In our time protection of the environment is a priority and such environmental disasters have a huge impact created and multifold by media and environment agencies to damage the portfolio value of the Oil-MNC. Firms needed to justify their actions to all stakeholders including the valuable shareholders. Firms need to balance between profitability and responsibility (Breeze, 2012) and demonstrate their adherence in a sustainable corporate social responsibility. Not only in their vision statement but also everyday acts. Assurance of human safety and environmental protection is pivotal for any industry; such things remain sometimes neglected in leased oil-rigs, reforms is necessary; both at the government layer – imposing regulatory steps on quality-control and the firm's internal decision-making process to ensure their political autonomy, technical expertise, and their full consideration of environmental protection (OCS report, 2011). Instead of one-sided blaming MNCs for this disaster we need to equip ourselves from preventing such incidents to occur, suggestions –

Strengthen the collaboration between government-agencies and MNCs,
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Firms need to invest on R&D to improve spill-response.

Analyze the traditional measures to contain the spill and introduce upgrades
- both Firms and Govt. responsible

BP to invest to enhance its spill preparedness and control mechanisms

Invest on robust design, leakage measurement and containment

Government and BP need to ensure fair, transparent damage control and estimating mechanism.

Restore the coastal wild life and marine food-chain, trust building measures need to taken by government to assure the seafood consumers.

Firms and government need to establish stringent measures to safeguard the human-life on the rig and the rescue-staff.

Long term restoration [of the marine life] plan is needed from Government funded by BP to mitigate the irreparable loss of the coastal-life.

Government should impose laws on the financial responsibility of the firms operating in the area during such disaster

Such confidence-building measures would slowly but steadily improve the environmental situation of Mexican-Gulf and lessons learnt from this disaster would help firms to enhance their disaster preparedness. Disasters caused by blow-outs might occur in future too and investment needed to prevent such situation [failsafe mechanism], if that fails capping of blow-out need to be done swiftly and relief-walls might be suitable to restrict the leakage,

Jernelo"v (ibid). Consensus and umbrella approach, Mintzberg and Waters (ibid) where strategies originate/revolve around consensus- in such a multiparty environment reaching consensus is of utmost important, no stakeholder can devise/deploy strategy in single handed. Government needs to develop the boundaries of tolerance and impose safety-mechanisms, within which firms need to operate and periodic checking mechanism should be in place to ensure firms operate within their limits set by government. Corporate Social Responsibility determines the expected behavior of a firm towards its commitment to society and responsibility of conducts for environment - BP needs to demonstrate this in their future plants.