

Executive Briefing



BP and public issues (mis)management

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FROM RICHARD IVEY SCHOOL OF BUSINESS

BP's horrible missteps after the Deepwater Horizon rig exploded were almost predictable, given the culture of deceit and arrogance that executive actions had encouraged. While the accident could have been prevented, BP might have avoided its intense and deserved public flogging if only it had respected the best practices for managing a crisis – and for managing. Readers of this article will learn what BP could and should have done differently.

"My enduring priorities are, firstly, continued improvement in the safety of our operations all around the world."

Tony Hayward, Former CEO, BP: Daily Mail, January 13, 2007

On April 20th 2010, the Deepwater Horizon oil rig off the coast of Louisiana exploded, killing 11, injuring 17, and spewing at least 3 million barrels of oil into the Gulf of Mexico in what would end up being the greatest environmental disaster in American history. It was also the most recent deadly and polluting industrial accident for BP.

An argument could be made that a disaster like the Deepwater explosion and resulting spill could happen to any oil company, and that BP was simply unlucky. This feeling was evident when, according to the *New York Times*, Tony Hayward quipped to senior BP executives, "What the hell did we do to deserve this?"¹ There is some truth to the argument that BP was the victim of the sort of bad luck that could have hit any oil company; drilling for oil is risky and dangerous to be sure. However, there is a lot of evidence to suggest that more than bad luck was involved.

Hayward's quote about safety was made not long after he was appointed CEO, after the previous CEO, Lord John Browne, abruptly retired after becoming embroiled in personal scandal, and after other "worst disasters in our history." Despite Hayward's claims, BP had had three major environmental industrial accidents that killed employees and/or spilled oil in less than five years. Deep Water was one of the three.

In 2005, an explosion at BP's Texas City oil refinery killed 15 people and injured more than 180 people. The accident cost the firm US \$2 billion in damages and lawsuits. Investigations after the explosion indicated that after BP acquired the refinery in 1999, two significant CEO-mandated cuts in operating costs led to lower maintenance and safety standards. A report by the independent consulting firm, Telos Group, commissioned by the refinery's management, was extremely critical of the safety standards at the refinery and criticized the cost-cutting as "risky"². This report, along with one commissioned by BP's board, which was chaired by former U.S. Secretary of State James Baker, looked at the firm's complete range of safety standards. It was also highly critical of BP's safety standards. and records were provided to BP's CEO and board upon their completion³.

About a year later, a corroded pipe near Prudhoe Bay, Alaska burst, spilling 200,000 gallons of crude. Investigations into that spill indicated that, in an effort to save money, the firm had stopped cleaning and testing the pipeline.

These two "accidents" are only some examples of the many "near misses" BP has had that didn't miss. Reports suggest that between September 2008 and November 2009, "three BP gas and oil pipelines on Alaska's North Slope clogged or ruptured."⁴ According to the United States Occupational Safety and Health Administration (OSHA), BP was responsible for 760 of the 761 citations it issued to refineries for what it labels "wilful and flagrant violations" of safety and health standards. The citations described the firm as having "demonstrated either an intentional disregard for the requirements of the Act or plain indifference to employee safety and health."⁵ According to the OSHA, BP has yet to pay the fines from the Texas City explosion.

When Browne left the firm, many of its directors left as well. Hayward's appointment and his words above were supposed to be a signal that the company was now serious about safety. But this signal and the reports suggesting safety was being placed at risk due to cost cutting were apparently ignored by BP's new board and then by Hayward. In the 3 years that he was CEO, the firm reduced its overhead by one third, cutting 7500 jobs around the world and reducing operating costs by \$4 billion in 2009⁶.

BP has for many years publicly claimed to be laser focused on safety. But inside the company, it was clearly focused on cost cutting, at the expense of safety. Furthermore, regulators and environmental groups have not been fooled by BP's public statements, though they have allowed the company to continue to operate as usual. Who then is to blame for the spill? Is it BP, which has been driving cost cutting hard and succeeding? Or its contractors, who have had to operate to meet BP's specifications and who, in order to meet budget, changed operating procedures? Is it government regulators, who have been well aware of BP's violations, but have allowed it not to pay its fines and to continue to operate? Is it the public, users of oil, whose insatiable demands for petrochemical products has led to the overuse of a limited natural resource that, it could be claimed, forced firms like BP to take on ever more risky operations to meet demand (note that figures suggest that the operations in the Gulf account for nearly 20 percent of the United States' domestic oil production)? Or, is it investors, demanding ever higher returns on their investment over shorter periods of time, driving BP executives to squeeze efficiencies from operations that were designed to be effective -- not efficient, in order to maximize earnings per share?

If for years then, everyone (both inside and outside the company) knew that BP had a culture of risk and that its safety record was so poor, why has the firm fared so poorly this time? The purpose of this article is not to get into the specific causes of the accident on the rig itself, but rather to present some lessons on managing public issues, lessons from which all businesses can learn. There is evidence that after this accident, BP management -- due to arrogance or hubris that developed from surviving past tragedies, ignoring penalties and being allowed to work as it had in the past -- miscalculated the public's reaction, and through poor issues management cost the firm whatever goodwill it had left, not to mention billions of dollars more of shareholder's money?

Public issues management⁷

Public issues management is a strategic planning process that aims to identify current or emerging issues and trends that will affect organizational goals. Once the issues have been identified, businesses analyze information on these trends and make plans to respond or to mitigate their impact. Essentially, issues management involves dealing with issues in the external environment that can affect the internal operations of the firm.

What are "public issues?" They are any concern that someone may have and is acting in a way to make this concern known by others. The issues arise out of a problem affecting interests of members of a given society and may involve many parties, often with differing perspectives and agendas.

What makes managing public issues important to the firm is that it may not know who or how the issues originated, for whom they are or will be a concern or, (most importantly), how they will affect the firm now and/or in the future and how it will have to adjust its operations. If the issues are managed, a firm can interact with the stakeholders who raised the issue to guide its development and resolution. The firm is then part of the solution, not the problem, and not caught off guard.

The public issue BP faces now is that everyone is fed up with its seeming acceptance of its culture of risk that resulted from over-zealous cost-cutting and its lack of contrition for the tragic, deadly results. The issue is not new: people have known that BP operated close to the edge of safety for years and blatantly ignored penalties. The disaster in the Gulf of Mexico, while terrible, could have simply been one more (albeit huge) oil spill that BP fixed, and the company could have moved on. In this case, however, the firm's mismanagement of the public issue was so poor that stakeholders became outraged at BP's lack of transparency, its stonewalling, and apparent flippancy about the environmental damage and the death of 11 people. BP's poor issue management has in fact facilitated the mushrooming of what could have been a local issue into a global issue that may be too big for BP to survive.

Public issues life cycle

As it became clear that the amount of oil spilling from a damaged pipe thousands of metres below the surface was far greater than what initial BP's estimates claimed, and that the damage to the environment would be greater than expected, it was thought that BP would go into damage control. And while it was true that an armada of boats tried to collect the oil, an army of engineers tried to stop the flow, and BP employees invaded Louisiana, the efforts were all directed at physical damage control. Commercial expressions of BP's commitment to cleaning up the mess and making things right were broadcast across all forms of media.

But whether BP management had – or has -- any real concern about managing and identifying the real public issue remains to be seen.

In an issues management situation the leaders of the firm must be the voice of the firm. However, the reactions of those who are BP's real representatives to external stakeholders, CEO Tony Hayward and board chair, Carl-Henric Svanberg, only undermined any attempts to build goodwill. Actions are supposed to speak louder than words but the actions of thousands of genuinely hard-working BP employees who are intent on making things right are forgotten when the public, which sees your firm as uncaring, dirty, polluting and greedy, hears the people with the real power to change things within the company say things like:

"He (Obama) comes across as a .. he is frustrated because he cares about the small people. We care about the small people. I hear comments sometimes that large oil companies are greedy companies or don't care, but that is not the case in BP. We care about the small people." Carl-Henric Svanberg, at a news conference after meeting with President Obama at the White House

"The Gulf of Mexico is a very big ocean. The amount of volume of oil and dispersant we are putting into it is tiny in relation to the total water volume." Tony Hayward to The Guardian, May 14, 2010.

"I think the environmental impact of this disaster is likely to be very, very modest." Tony Hayward, speaking to reporters, May 18, 2010.

"The first thing to say is I'm sorry. We're sorry for the massive disruption it's caused their lives. There's no one who wants this over more than I do. I would like my life back." Tony Hayward, speaking to reporters, May 31, 2010.

The role of the chair and CEO in these situations is to build confidence and express contrition, and to recognize that this is the most important thing in your life. It is outrageous to complain about how hard it is to do this and to take time to participate in a yacht race. To the casual observer, who may have no idea how much time these two men may have put into working on a solution, these quotes are little more than a thumb to the nose. Leadership is a set of competencies for sure, but it also requires character and moral fibre which really show through in times of crisis. One has to wonder where BP's leadership was in the summer of 2010.

Did BP care about the issue? BP's management talked about safety for a decade but did it really communicate this message by requiring selected contractors to have the lowest costs? The answer is definitely "No.", given BP's track record of dealing with these sort of accidents and the fact that it ignored fines, and that its own actions directly contributed to the accident and, due to the reports that board members received after the Texas City refinery explosion, reports which indicated that the cost-cutting was putting safety at risk at multiple locations around the world. If BP's past behaviour is any indication of its future beliefs, one would expect that it felt that it could get away with this one too.

The four stages of issues management

The problem for BP was that this public issue became much bigger than it could have expected. Public issues are not static. In fact they progress through fairly well established stages. The **first stage** involves "changing public expectations," wherein stakeholders' attitudes about an issue begin to change and expect firms to behave differently than they did in the past. If a firm recognizes these new behavioural expectations and begins to operate in line with them, the issue is often resolved with minimal impact to its image. However, if it fails to recognize the change or simply ignore it, the issue becomes inflamed.

What often happens is that some sort of pressure group forms and starts making the issue known to others. Often the press picks up on the issue and the public pays greater attention. As evidence of the differences between expected and actual firm behaviour becomes more widely known, the issue transitions to stage two, the political stage.

At **stage two**, politicians join the discussion either by choice, to gain political capital, or they are recruited because of their position in the government. Regardless of how or why politicians join the discussion, once they do the issue becomes part of the greater social discussion because a wider array of media will discuss the issue. Depending on the strength of proponents and the politicians backing them, the issue may become part of the region's public policy and ultimately reach the **third stage**, the legislative stage, where laws that directly affecting the firm's operations are enacted.

During the political stage, an astute business leader or lobby group has the opportunity to be involved in the public policy debate and influence the discussion. The firm also has the opportunity to alter its operations to ensure that it stays within the requirements, should the outcome be different than what it wants. Clearly, BP did not choose this kind of involvement and change. As more evidence about its negligence and cost-cutting came to light, the firm kept right on cutting. When Tony Hayward was called to testify before the American Congress, he walked out after five hours of testimony with his firm looking worse than it did than when he began. This was due to his reluctance to provide any insight into what really happened. His comments appeared more designed to deny guilt and obfuscate the situation than work with the government to resolve the issue in a way that would be less harmful to BP.

Stage four is the litigation stage, where firms that are not in compliance are tried and must engage in a costly, time-consuming legal proceedings and face fines if found guilty. If the firm has fought its stakeholders and government throughout the public issue lifecycle, as BP has done, it will find little sympathy from regulators. This is evident in the actions of the Obama administration, which forced BP to place US\$20 billion in an escrow fund for clean-up, and unilaterally placed a moratorium on deep water oil drilling. Although the moratorium was eventually lifted, if it had not been it would have effectively eliminated a huge stream of revenue for BP and rendered hundreds of millions of dollars in equipment useless.

It appears that stage four of this issue's life will hit BP hard. While the firm earned revenues of more than US\$239 billion and profits of US\$16.8 billion,⁸ and with demand for oil that is not decreasing, the firm will still take a financial hit for 2010, as will its investors, who have lost roughly 50 percent of their investment since April. Will the firm survive? Some have said it is an attractive acquisition target, given its balance sheet and assets. Odds are that BP will survive in some form, but will it change its behaviour? That remains to be seen. Tony Hayward and the board that emerged from the John Browne scandal claimed to be different. As Hayward himself said when he tried to distance himself from his predecessor: "I'm Tony Hayward. John Browne was John Browne. I'll be me. There is not a lot more I can say."⁹ In the last decade BP has suffered from a failure of leadership, communication, risk management and character. These shortcomings combined to ultimately lead to a failure of issue management, where the firm had a real opportunity to change the way it had previously handled accidents. Ultimately, the ingrained culture of risk prevailed and BP management took a risk that its reaction would not be made into much of a reaction. That risk failed miserably. Organizational culture is a difficult thing to change and the new CEO, the American Robert Dudley, has his work cut out for him. John Browne claimed he wanted to lead BP beyond petroleum. Dudley will have to lead the firm beyond problems.

by Trevor Hunter and Murray Bryant

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