

Strategic implications of the BP Deepwater Horizon accident

Introduction

Strategy has become the only way forward for all multinational firms because of the competition arising from new entrants and substitutes that are potentially well placed. However, in this case, it is not about a planned strategy. BP has always been understood as one of the best companies in laying strategies for both long term and short term plans. However, it finds itself in a very serious situation that not only makes the company to lose a significant amount of oil, but also makes its image tarnished in the eyes of almost all stakeholders surrounding it. This accident makes one of the few cases that have challenges firms to develop impromptu plans for the sake of its positioning, which in business as indicated by (Mintzberg & Waters, 1985), has been termed as emergent strategies. Any company has many matters which in essence surround its operations that will require strategies that can effectively cope with them. For incidence oil companies are the most vulnerable to issues of pollution and fire crisis. As indicated by (Quinn, 1992), Bp was left with no option but to engage in emergent strategies that could save the firm adequately. As a long time company in the oil industry the firm has managed to develop strategies which have been a success in letting the firm repossess its market share, which is global. Therefore, the sentiments of (Holt & McNulty, 2008) about strategy occurring in increasingly complex environments can be illustrated effectively by this case. Sensitivity and good management are paramount in situations similar to BPs deepwater incident that became a global concern, calling for advocacy from many sectors like the environmentalists and human rights agents. In this paper I explore how the company managed to deal with the challenge so as to keep its strategic positioning in such a highly competitive industry.

History of British Petroleum (BP)

BP is a company that has been historically respected, counting its existence to approximately 100 years. The English government was in the late 1890s and early 1900s interested in boosting its national oil resources. As a result it commissioned a gentleman by the name William Knox, who was a renowned businessman in England. As indicated by (Ferrier & Bamberg, 1982) he set foot on what is today referred to as Iran with a purpose of exploration to discover Hydrocarbons, a substance that is raw material to oil products. It did not take long before his efforts bore fruit and England as a state found for itself Oil and Gas resources, which were respected globally. A country that owns such resources is also still respected to date because of the potential the resource has in business and other engagements.

26th March 1908 is a historical date to BP since it is the time when Knox's efforts were successful and discovered a 360 M deep oil fountain which was soon to become a great asset to the government. By 1909, it was decided the project be managed by the Iran based firm Anglo-Persian Oil Company (APOC). Basically, this was a great achievement of the government and therefore had a significant support from the state both politically and economically. This discovery also put the Middle East on the Map as one of the richest oil production places in the world. On the other hand, APOC which had operated for barely five years in the time was in charge of the project until 1917 when the name APOC was converted to British petroleum (BP).

This company can be said to be among the first to engage in international strategic issues in its marketing plans. BP has been able to serve many nations through the world wars and other significant events in history. Together, with its counterpart SHELL, BP has been putting its plants in potential oil production zones and has also built its brand as not only an oil company but as a producer of raw material that are supplied for processing as crude oil to other firms in the world. They have invested heavily in the discovery and production of Hydrocarbon resources globally. This history has become a role model to other entrants down

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the line and as a matter of fact has made BP respected for being one company that has shaped the oil industry significantly. Interestingly, the firm keeps renewing its operation tactics through innovation and use of great technologies (Watson, Hayward, Parkinson, & Zhang, 1987). As a matter of fact, it is rated as the leading in technological operations relating to the oil discovery and processing.

BP Deepwater Horizon accident

It does not matter how stable or experienced a firm can be, disasters will always be a challenge. BP applauded as a great and successful firm has not been a separation from many confrontations with issues that are fatal. On the 20th April of 2010, something disheartening took place in the coast of Louisiana where there was an explosion from the companies deep water oil drill. This explosion was able to take away 11 lives and injuring 17 employees who by then were engaged on their duties working on the rig. The accident had initially not been considered weighty but in a short while received immense concerns as a disaster that had potentially destroyed the natural resources. The environmentalists and economists found a serious fault provided by the deepwater explosion, let alone the instantly lost lives at the time. In such areas, there are many more lives that are held dear by the governments are residents like the fish and other aquatic creatures. Therefore, this was an incident that was attracting many interests from many legally empowered sectors in the government (Black, 2010).

As indicated by (Tsoukas, 1999), the residents of the area who were majorly fishermen and precinct and hospitality practitioners in the region were among the most affected because of the huge spills that occurred from the big pipes in the deep waters. The two stakeholders are usually dependent on water for their business to flourish and this accident is an indication that they are likely to suffer losses for a significant time. These issues call for the company to either compensate them as the only solution towards the losses they are likely to incur. Despite

the fact that they are not global or multinational, there is a great challenge for the tourism industry because everyone had to hear of the BP tragedy which could automatically bar people from visiting the area. Technology which has enhanced communication could not allow this matter go unnoticed by the entire world. There also other investments surrounding coastal areas which may not have been mentioned but were affected immensely by the accident.

These issues gave BP Oil Company no option but to stop other businesses and give time on the focus towards a reconstruction of its image as a company. They deserved a good strategy to be able to achieve trust and stability again not only from England but the entire universe since the firm was no longer national. In such cases, there is always need to have quick responses that are well thought of, which can be seen as impromptu but essentially are helpful in coping with the loss and maintaining the image of the brand in the externals. According to (Mintzberg & Waters, 1985), this is known as an emergent strategy because it deviates from the original strategy significantly, with the purpose of developing ways to undo the underlying phenomenon, in the shortest time possible. This challenge has not only been experienced by the BP Company, but companies like Shell in Nigeria and Mexico has less equal confrontations which they have always handled. On the worst side, there have been impossibilities in repairing the image the companies forcing some to rebrand or engage in mergers and acquisitions as subjects just to build the trust and keep the profitability objectives active and achievable. The deep water tragedy was the first serious accident BP had experienced over a long period of time.

Such tragedies do lead to other challenges to the company and the best example of the oil spill and emissions cause by exploration and extraction of crude oil from Agondi in Nigeria by SHELL. In mending the situation, the company chose to work closely with the Nigerian government, which was really supportive. However, the Protestants of the pollution causes by

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the company were ordinary citizens and other political, human rights and environmentalist activists. The government applied force, killing some of them through extrajudicial means and in the process the image of Shell in the Nigeria republic was utterly destroyed. Therefore, emergent strategies could in many cases turn out negatively and need keen thoughts on the steps to be taken. As indicated by (Stacey, 2005), there is no way companies can escape emergencies and therefore there needs to be a valuable think tank to manage such situations. Today, the legal implications of investments have been increasingly getting tighter with the emergence of the Corporate Social Responsibilities CSR, which has received much emphasis on multinationals. This has guarded against environmental depletion and other issues that could affect stakeholders in host areas of the companies.

Strategic implications of the incident

To find the strategic positioning of the company within the context of being confronted by the incident, three ways are going to be used. The first one is PESTEL analysis that looks into the political, economical, social, technological, environmental, and legal implications to the affected company (Grant, 2010). The second one is using the five forces of (Porter, 2008), which looks into the threats from entrants, substitutes, rivalry, buyer bargaining power and supplier bargaining power. The third perspective of looking into the strategy will be based on (Barney, 1995), who proposed use of resources to determine a firm's competitive advantage. These models look into the Value, Rareness, Imitability and Organization of the firm's in terms of resources, normally referred to as VRIO analysis. From the three perspectives it will be possible to deduce the position of BP after the tragedy which the company experienced in 2010. This is interesting because BP still leads in the oil industry and has ever since managed to walk over the calamities it underwent. Many scholars have however criticised the company and indicated that it has a poor management of the calamity. The company being among the pioneering ones in the industry is under a global spectacle to see its strategic steps.

PESTEL Analysis

Political

As a Multinational, the incident could not go unnoticed in the world. Every single nation and its political systems knew of the challenge and in many cases could have sent their condolences to the affected nation. The implication of these could be different sentiments and scolding towards the cause of the loss of lives and environmental destruction, and this is the company (Freudenburg, 1996). Therefore every political setting in specific countries must have concerns relating to such incidents. As a result, BP received an immense response from the government whereby the president of the United States of America commissioned a delegate to inquire and effectively handle the deepwater tragedy. Therefore, the company could not escape the political consequences and wrath from the activists who are in many cases negative to such calamities. The fact that the company is not private puts it in position to argue its position out, and basically this could be an ice breaker of the situation. There will certainly be provision for dialogue, not only with the firm's management but with the British government which as usual will be balanced and fair. Political forces and sentiments raising environmental concerns are inevitable regardless of the firm being owned by the government and therefore require clear policies to define the problems. as indicated by (Bryant & Hunter, 2010), there is a great feeling that two years down the line, the company has failed to solve the issues satisfactorily and more so, many feel that the accident could be possibly evaded (Kunzelman, 2013).

Economic

The economic challenges were extensive and as observed, the tragedy was a loss to the company for both physical, monetary and human resources. Any environment of the multinationals has a serious implication on their stakeholders in their operations. Oil

companies have not sailed softly in their efforts to excavate, extract and process the crude oil. The effects have affected people economically through damaging soils so much that they become infertile to produce more income for the families. In this BP case, it can be seen that the two group of entrepreneurs who are the fishermen and tourists. Looking at the fishermen, they depend on fishing which is a daily activity and if the fuel spills affect the fish through killing them, and making the water unsafe for them to carry on with their activities then there is a disaster that they will be economically affected (Brantley & Harlow, 2011). All this effects will have their wrath projected towards the company and as a matter of fact the firm will part with significant amounts of money to compensate the affected families alongside revitalising its broken pipelines. Tourism will also be affected in the sense that customers will have to find alternative destinations because of the pollute environment and also the paralysed open-air activities because of the contaminated water. So the firm had to fight this truth which has serious economical implications to the company.

Social

Eleven lives lost, seventeen casualties, fishermen lost their livelihood activities, and tourism sector freeze (The Economist, 2012). These are all social matters that could be implicated by the incident in the deepwater disaster. The disaster affected the residents residing alongside the coast immensely. In such an incident, the challenges crosscut so much that the economical, environmental and social matters are stricken by the depletion. The accident resulted to sentiments that involved compensation of the affected residents, and entrepreneurs. The company set up a fund of \$20 Billion to compensate the affected people, but still, the social setting will remember the incident forever, for the money cannot heal the physical scars and bring the dead back to life. This incident will remain in the minds of citizens for a remarkable time. Research reveals that there were many American individuals

opposed to the brand, affecting the firm's income. Therefore the firm had to work on its social image to be acceptable again for its benefit.

Technological

The company is well positioned in technological stability. Technology has been argued for a long time about its credibility with some questioning if it's an angel or a devil. In such circumstances, many sentiments in the negative sense emerge and more so paint the company's technical issues as risky and incompetent. Technology and globalization are inseparable and they are drivers to each other. As a multinational company it cannot survive without technological innovations. BP is well managed in technical issues, and has invested heavily in other places so much that they can easily compensate the loss. The firm has stable investment in deep water explorations and has technological ability to improve on their systems to avoid such dangers in future.

Environmental

As indicated before, issues of the economy, social and environment cross cut. Therefore, there is a possibility of repetition of previously mentioned problems to suit in the same category. However, in perspective it is good to analyse the firm's jeopardy in connection to the corporate social responsibility (CSR). These global environmental policies have moved from ethical and moral perspectives to legal implications. As indicated by (Gephart, 1984), the impacts of the deepwater disaster have been considered catastrophic, because of the many lives affected both directly and indirectly. These lives have not only been affected for a short time but the effects were extensive and ran over a significant period of time. The company in conjunction with the British government has been able to focus on alternative ways which can be able to be environment friendly, and also with the purpose of having to secure the company from such catastrophe in future. It has always been said that one plane crash leads

to safer flying, and as such this deep water incident was like an eye opener to safer excavation and extraction techniques. This safety is not only a BP challenge but is essentially a lesson to be looked upon by the entire oil industry in the world. Sustainable development is tripartite and therefore cannot afford to assume any of its three elements, social, environmental and economical (Levy & Gopalakrishnan, 2010).

Legal

The magnitude of this challenge would not escape putting the company on the limelight in legal problems. The firm has been accused of stalling the case against it through a twenty billion dollar compensation offer. This case has raised many stakeholders to take up the task over overseeing the end result, hoping that it comes to a fair conclusion. The legal implication has affected the strategy of the company and according to (Holt & McNulty, 2008), has raised questions about the accountability of the firms involved in the industry. As indicated before, the Shell case in Nigeria was concluded after a long battle and loss of lives, and another challenge in Mexico which equally affected the residents immensely. Legal issues are tight to the oil industry and basically all multinationals in practice.

Competitive analysis based on Porter's five forces (Porter, 2008)

Entrants

It is unimaginable for an individual or firm to begin working as an oil extractor and explorer in this age. This activity demands a well grounded background and experience, to earn market shares. Therefore, the entrants in the industry are low. The company is well placed historically and with enough financial bases to manage the challenges of the deepwater scam. The old firms have become so stable and marketable that new entrants may not have the ability to survive (Watson, Hayward, Parkinson, & Zhang, 1987).

Rivalry

Companies involved in the oil industry are many and they have all run for a global presence a fact that increases rivalry. Brands that are easily captured are Shell, Conoco Phillips and Bp (Tsoukas, 1999). Bp has substantial rivals and failure to be able to manage its operations in terms of strategy can easily make it to be overtaken by the others. What BP went through is however not an issue that can deny it the market as long as it is still in operation. A century is time enough to create trust and value of its brand so much that only extinguishing of the company can be able to deter consumers from buying its products. As indicated by the analysts, the deep water explosion was not an issue that could deny the companies chances to rise as a multinational.

Substitutes

The world is seeking other forms of energy. This is not yet a threat to the company because a significant percentage of the consumers will continue depending on petroleum gas and fuel. Sources of energy like Coal, solar energy and electricity just a few which are being used as substitutes to petroleum products. However, the world is still heavily dependent on petroleum products and is the analytical point of view BP has nothing to worry about substitutes (Kenrick, 2012).

Buyer bargaining power

The buyers of petroleum products are normally increasing in number day after day. In this case, the company dealing with crude oil products can be rated as marketable because of the needs in the market place. When the consumers are more in the market, the product becomes marketable thus on the buying power. However, there is need for the firm to work on the image of the brand so that consumers can have a reason to leave other brands for BP

Supplier bargaining power

The company's suppliers are areas where there is a possibility of oil extracts. Iran is one of the major suppliers of the extract. In this case, the supplier's supplier by then was the United States government. The incident could have possibly caused many questions from the potential suppliers. However, it is certain that oil extracts are few and have serious political and legal attachments.

Barney's resource based analysis (Barney, 1995)

Value

The company is one of those that have the most valuable resources in terms of stores, plants and machinery. They also have transportation tracks. The firm as indicated by the controversy can be questioned on the credibility of the resources like the deepwater plant, something that can be handled to avoid future accidents (Bryant & Hunter, 2010). In terms of human resources the firm has invested heavily in research. Over the period of time that the company has been in operation it has also managed to acquire good capital base and this can be identified from the willingness to compensate victims to stall the case.

Rareness

BP has been able to identify itself in a unique way from the other firms in the oil industry. It has become rare in the qualities it holds and basically they can be seen in its innovation and investment in research. The company's efforts to explore new oil reserves are significant in attaining rarity. However, in many aspects of the industry, other major firm's are working in a similar way.

Imitability

Imitation has become the common trend many firms especially the emerging ones are taking. BP has been built over a century and this is an indication of the intangible resource of history and experience that can never be imitated. The firm is sophisticated and it is certain that imitating BP can be a difficult task to accomplish.

Organization

This firm's management is by the appointed management and the British government. The organization of the firm can be seen as remarkable following the long time the company has survived in the market independently. However, the disaster in the deepwater explosion is questionable as far as the management is concerned and also the time it took for the company to overcome the problem.

Conclusion

The emergent strategy to be applied by BP is an important step in redeeming its brand image and position in the market share. The corporate strategy it employed was a repair of its image by compensation of victims, but in as much as they tried; they failed to completely rub the issue from the virtual audience. The resource based analysis displays the stability of the firm and in this, it can be seen that the company is strategically safe in its resources. The deep water disaster has not yet lost the firm's competitive advantage because of the history of the firm. If there were any Americans claiming to quit the brand, they have a little impact on the firm's sales because there has been no reported resistance in other parts of the world. This firm is a case of how calamities can befall a firm and how they can live up to this challenges to keep maintaining their competitive advantage (Kotler & Armstrong, 2003).

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