Business Case Study – British Petroleum Oil Spill in the Gulf

Case Objective

In order to be distinguished from competitors in an increasingly similar marketplace, it is crucial for an organization to align its identity and image with its actions. This case study will illustrate how integral a corporation’s image is to its credibility and public perception.

Executive Summary

BP’s history has been speckled with spills, explosions and other environment-impacting disasters. In April 2010, yet another disaster occurred, this time in the Gulf of Mexico. The resulting oil spill killed marine life, ruined marshland and destroyed dependent businesses.

In its failure to respond appropriately, communicate adequately and garner public support, BP earned low scores for public relations and social responsibility the result being a dented corporate image that will probably take years to restore.

Background

British Petroleum (BP), is the third largest energy company in the world and on April 20, 2010, it caused what is now described as the largest accidental marine oil spill in the world and probably the second largest environmental disaster in the history of the United States. It began with the explosion of the Deepwater Horizon oil rig (operated by Transocean and BP) forty miles off the Louisiana coast and left 11 workers dead, 16 seriously injured and 99 slightly wounded. The explosion caused the Deepwater Horizon to burn and sink, starting a massive offshore oil spill on the Gulf of Mexico. Oil continued to gush into the ocean bed for ninety-one more days until, finally, on July 15, 2010 BP engineers managed to cap the spill.

BP’s response to the oil spill was considered poor by the general public. In a USA Today Gallup poll published in May 2010, 73% of Americans surveyed disapproved of BP’s reaction and
handling of the situation. With an already spotty reputation with environmentalists, BP executives’ failure to manage the oil spill crisis effectively and appropriately further contributed to the organization’s already tainted image, reaffirming a reputation for lax safety in the bid to cut costs. MCSI, a provider of investment support tools and risk management and analysis services, assigns scores to companies in a variety of categories, including safety. In a report published in June 2010, MCSI credited BP with a worse health, environment and safety record than many other major oil companies (NY Times).

In 2000, BP had re-branded “itself a friend of the environment, an energy company that goes beyond petroleum” (BP.com, MSNBC.com). This brand image has been in direct contradiction to BP’s reality. The man behind the new brand image, Lord Browne, CEO of BP at the time, was also known for aggressive cost-cutting measures. An investigative report featured on PBS Frontline revealed that, in the years since the new brand image was adopted, BP has had major environment-impacting incidences that resulted in incident probes and legal and ethical violations.

One such incident was the Texas Refinery Explosion in March 2005. Post-incident investigations revealed that major upgrades to the refinery had been postponed in a bid to cut costs. In a separate investigation commissioned by BP, the former Secretary of State James Baker concluded that BP did not “adequately embrace safety as a core value” (PBS.com).

Another incident that contradicted BP’s environmentally-friendly image but reiterated its dearth of safety practices and reaffirmed its aggressive cost-cutting practices occurred in 2006, when, pursuant to years of reports of employee concerns about safety, in March, 260,000 gallons of oil leaked from a BP pipeline in Alaska’s North Slope. Investigations revealed that the pipe was corroded by sediment buildup because the pipe hadn’t been cleaned in more than a decade.

Yet another blot on BP’s environmentally-friendly image was in July 2005, when Hurricane Dennis caused BP’s Thunder Horse Rig, which towered 43 stories above water, to topple. Or so it was thought at the time. An accident report published by then Minerals Management Service (now
called Bureau of Ocean Energy Management Regulation and Enforcement following a major restructuring after BP's Deepwater Horizon oil rig explosion in 2010) stated the following as causes of the incident: (1) BP's failure to develop standard operating procedures, (2) BP's failure to conduct on sight verification inspections during the installation phase and (3) BP's failure to have remote monitoring of the control system; all safety-related issues.

Identity is “the actual manifestation of the organization's reality as created by the organization and communicated to a variety of constituencies.” An organization’s identity in turn informs the constituents’ perception of the organization “based on the messages the organization sends out about itself.” In other words, the identity of an organization creates its image (Argenti, 68, 81). Reputation is a result of an organization’s executives’ strict adherence to “following practices that (1) shape a unique identity and (2) project a coherent and consistent set of images to the public.” Reputation is built over time and is a product of both external and internal constituencies of the organization (Argenti, 83). Since its massive re-branding campaign in 2000, BP has secured an identity for everything contrary to the image it projects of itself; rather, it appears to have built a reputation that supports another truth.

**BP’s History**

On May 26, 1908 explorer, George Reynolds struck oil in Persia and thus, the Anglo-Persian Oil Company, known today as British Petroleum (BP) was born. This first discovery of oil happened after seven years preceded by an era of almost bankruptcy for George Reynolds and his financer, William D’Arcy. Six short years later, in 1914, it looked like the Anglo-Persian Oil Company was once again on the verge of bankruptcy, this time because, even though the company had oil in abundance, there was no one to sell the oil to (cars were still too expensive at the time) and the Persian oil was hard to refine. It had a strong sulphurous odor and could not be sold as kerosene which was the main form of oil consumption in those days.
BP’s retelling of its history on its website describes how the then-Anglo-Persian Oil Company was saved by Winston Churchill, the First Lord of the British Admiralty who convinced the British Parliament to endorse oil as the source of fuel for the British Naval vessels. Churchill thought Britain needed a dedicated source of oil supply and that the British-owned Anglo-Persian Oil Company would protect British interests. The passing of his proposal by the British Parliament, ended Anglo-Persian Oil’s drought period, and not too soon—the British government became shareholders in the Anglo-Persian Oil Company and two weeks after the proposal passed, Germany attacked France and the Great War started.

The British Petroleum brand was originally owned by a Dutch company who adopted the name in order to be able to sell its products in the UK. During the war, the British government seized the company and its assets and sold them to Anglo-Persian Oil Company in 1917. This gave the Anglo-Persian Oil Company an immediate “distribution network in the UK with 520 depots, 535 railway tank wagons, 1,102 road vehicles, four barges and 650 horses” (BP.com). Over the next ten years, kerosene consumption was taken over by gas and electricity and the new BP stepped firmly into the larger markets of Britain and Europe.

Tough Times for BP

During World War II, the rationing of fuel caused BP’s commercial growth and expansion to come to an abrupt halt. Like many companies in existence in the period, BP lost a lot in the war. As though that was not enough, political crises in the oil rich Middle Eastern countries rocked BP’s oil sources and contributed to the removal of “Iranian” (the company changed its name in 1935 when Persia became Iran) from the company’s name.

BP’s foothold in the region was further shaken by Libya’s Gadhafi who demanded a higher cut of all the oil that left Libya and the resulting impact was a sharp drop in BP’s oil supplies from the region from 80% to 10%.
New Partnerships, New Strengths

After a rough period from 1945 to 1970, BP’s fortunes turned around with the discovery of oil in Alaska. With a 25% stake in Standard Oil of Ohio (Sohio), BP was on hand to tap into Alaskan oil. Finally, in 1987, BP purchased Sohio outright and incorporated it into its new business, BP America. In 1990, BP and Amoco formed BP Amoco and later, BP added ARCO, an old rival to its portfolio of core businesses to be joined later by Aral and Castrol. With the injection of new strengths, BP was renewed and ready to enter the new century.

Stepping into the New Millennium

BP's main thrust in the new millennium was environmental protection and climate change. Then CEO, Lord Browne was “the first CEO of a major energy company to acknowledge the near consensus among scientists about the global threat posed by climate change. And BP, he said, had a share in the responsibility for addressing the problem.” With this premise, BP led the foray into finding new forms of low-carbon energy and made a commitment to reduce its carbon footprint. BP “got involved in a Clean Cities campaign in Europe, launched an emissions trading scheme and expanded its solar power business”. (BP.com)

In 2000, BP rebranded, repositioning itself as an environmental conscious organization. Under this new brand, BP took bigger steps towards addressing climate change, installing solar panels at its stations, bringing solar power to villages in poor countries, supporting the introduction of hydrogen fuelled buses in the United Kingdom and introducing a new, cleaner type of motor oil.

From the early days of oil prospecting in Persia, BP has risen to become a global energy company, supplying oil in almost all countries and a provider of other forms of energy. BP is the only energy company that has made public statements accepting the findings of scientists about the global threat posed by climate change (see Additional Information: Lord Browne's speech
Addressing Global Climate Change, at Stanford University in 1997). In this speech, he called for “a balance between the needs of development and the need for environmental protection” stating that BP had a share in the responsibility for addressing the problem. And so, BP staked its claim as a pioneer of clean energy, the only oil company investing in this as a corporate image.

Deepwater Horizon Oil Rig Explodes

At 9.56pm on April 20, 2010, fire broke out on the Deepwater Horizon from abnormal pressure cumulating inside a marine riser. Bubbles of methane gas expanded rapidly, ignited and exploded. The explosion caused a fire that engulfed the platform and burned for more than a day. Two days later, on April 22, 2010 at approximately 10.21am, the Deepwater Horizon sank and the real problems started.

After it sank, Deepwater Horizon gushed more than 5,000 barrels of oil per day into the seabed resulting in an oil spill of huge proportions, not seen since the Exxon Valdez tanker disaster in Alaska in 1989. The resulting oil slick threatened marshlands and wildlife, businesses and family livelihood along the coasts of Louisiana and Mississippi and beyond (MSNBC.com).

BP’s initial response to the disaster was superior. In a US Business report, MSNBC stated that “BP’s response so far has been superior to Exxon’s treatment of the Valdez crash. BP devoted most of its website to the disaster and held regular news conferences”. However, as time passed, cracks began to appear. A piece written by James Hoggan in the HuffingtonPost states “Mr. Hayward and the company have repeatedly played down the size of the spill, the company’s own role in the April 20 explosion of the Deepwater Horizon, and the environmental damage that has occurred. At the same time, they have projected a tone of unrelenting optimism despite repeated failures to plug the well.” (HuffingtonPost.com). First, BP blamed Transocean and Halliburton for installing a defective 450-ton blowout preventer valve, a device meant to cap the well in such emergency situations as this. Then BP’s CEO at the time, Tony Hayward made his infamous “I’d like my life
back” statement during an interview with reporters in Louisiana. And so began the downward spiral of BP’s carefully cultivated environment-friendly image.

**Problem Statement**

Organizations typically have image repair strategies that are deployed in instances such as was experienced by BP in April 2010. These strategies may be long- or short-term depending on the nature of the emergency.

BP’s response to the disaster raised questions with public relations experts who deem BP’s failure to apply the appropriate image repair strategies after the explosion of Deepwater Horizon a colossal mismanagement of public relations.

**Key Issues**

*Image, Identity and Reputation*

When BP rebranded in 2000, it was to reposition itself as an environmentally-friendly organization, leading the pack in finding new forms of energy and reducing carbon footprint. Unfortunately for BP, its reality did not match its actuality. In the past, BP had been responsible for other disasters that greatly impacted the environment—a blast in a Texas refinery and a pipeline spill in Alaska, to mention two of such incidents—none of which is in alignment with BP’s corporate image.

Rather than restate its brand image as environmentally-friendly, the oil spill that resulted from the Deepwater Horizon explosion instead entrenches BP’s reputation for dangerous cost-cutting.
Social and Corporate Responsibility

Social and corporate responsibility is an organization’s “social and environmental obligations to its constituencies and greater society” (Argenti, 105) and is a new measure being used by constituents to “analyze and critique modern-day corporate behavior.”

Despite its best attempts to the contrary, BP is not perceived as socially responsible. According to an interview with Time Business, Nirmalya Kumar, renowned professor of Economics at London School of Economics stated that “the fact that BP has for years presented itself as an environmentally friendly company has made the oil spill even worse.” In this era, organizations are expected to be socially conscious, doing the best they can to minimize the occurrence of disasters and ensuring, if disasters do occur, that the loss of life or damage to the environment is minimized.

Public and Media Relations

The media disseminate information about an organization to the organization’s constituents as well as the general public. The information that constituents see or hear about the organization contributes to the image that they (the constituents) carry around about the organization (Argenti, 155). Managing an organization’s relationship with the media is a crucial requirement that has increased in import over the years such that, it is common practice for major organizations to have a media relations department whose responsibility it is to manage the image of the organization that the media relays to the organization’s constituents.

Public and media interest in organizations grew in 1970 when people realized the impact of businesses on their lives after events such as the environmental problems at the Love Canal (Argenti, 156). Along with the growth of business coverage in the media came increased scrutiny, increased accountability and higher expectations from organizations.

Organizations are expected, when disasters occur, to work closely with the media to keep the public informed, to communicate their compassion and contriteness in a candid and honest
manner. In the *Time Business* interview, Kumar described how BP’s failure to grasp the depth of anguish people felt about the explosion may result in the need for a “total brand overhaul”. Other missteps by BP, included the sighting of then CEO, Tony Hayward vacationing on his yacht and the BP spokesperson’s response that he was “spending a few hours with his family….I am sure people can understand that.” There was frustration from local communities directly in the path of the oil spill at what they described as BP’s lack of communication (MSNBC.com) and when they did communicate, the lack of candor and specifics (Time Business). All of BP’s activities and actions, including that of its top executives were closely monitored and reported by the press and further derailed BP’s attempts to get its image back on track. This could have been avoided had BP’s PR department and executives worked closely with the media to keep the public informed.

**Effective Crisis Management and Communication**

“Crisis is a major catastrophe that may occur either naturally or as a result of human error, intervention, or even malicious intent. It can include tangible devastation, such as the destruction of lives or assets, or intangible devastation, such as the loss of an organization’s credibility or other reputational damage. The latter outcomes may be the result of management’s response to tangible devastation or the result of human error. A crisis usually has significant actual or potential financial impact on a company, and it usually affects multiple constituencies in more than one market.” (Argenti, 259)

Crises may be unique but, as Argenti states, referencing Ray O’Rourke, former managing director for Global Corporate Affairs at Morgan Stanley, they share common characteristics: (1) the element of surprise, (2) insufficient information, (3) quick pace of events, and (4) intense scrutiny (Argenti, 259). This definition of crisis and the characteristics listed are appropriate in describing the occurrence that befell BP on April 20, 2010.
In *Crisis Response Communication Challenges*, the research team of Hale, Dulek and Hale define 5 phases of crisis management, namely: prevention (subdivided into mitigation, planning, and warning), response and recovery (113). When crisis strike, a prepared organization will immediately channel its efforts and resources to minimizing damage to the environment, facilities and people. "It is at this point that the crisis characteristics of short decision time, complexity and ambiguity surface. It is also at this point that communication decisions make a vital difference, not just to the public’s eventual perception of an organization’s behavior, but also to the health and safety of an organization’s employees, community residents and the public in general. (Hale et al, 114). In the first few days after Deepwater Horizon exploded and sank, BP performed excellently – a section of BP’s website was devoted to the incident and BP executives held regular press conferences, keeping the public informed. In this stage of the crisis, BP had a consistent message—‘we will clean the mess and compensate those who have been affected.” But that didn’t last long.

Speaking with *Time Business*, Kumar, discussed BP’s crisis communication management, stating that BP’s attempt to downplay the size of the disaster and lack of candor could ultimately cost BP’s brand image. In his article in the *Huffington Post*, James Hoggan remarked that BP continued to portray unrelenting optimism rather than candor, all the while failing to plug the hole, succeeding only in further eroding the trust the public had in the organization.

**Potential Resolution**

As previously mentioned, in the beginning of this crisis, BP's initial response focused on two things—“describing how it would correct the problem and describing how it would compensate the victims” (Harlow, 83). While initial press releases appeared to infer that BP and Transocean had a joint responsibility for the incident, BP was quick to put an end to this in subsequent press releases; rather, BP tried to communicate that it was seeking a conclusion to the matter stating what BP had done since the last release, and what it intended to do before the next (it is worthwhile to note that
none of BP’s communications left the reader with the impression that BP was accepting full responsibility for the explosion).

Additional Information

1. Lord Browne’s speech *Addressing Global Climate Change*, Stanford University, 1996.

   http://www.gsb.stanford.edu/community/bmag/sbsm0997/feature_ranks.html
Works Cited


http://www.bp.com/sectiongenericarticle.do?categoryId=9014445&contentId=7027526

Hoggan, James. “BP’s Crisis Communications is Fundamentally Flawed.” Huffingtonpost.com.


http://www.msci.com/insights/responsible_investing/historical_esg_perspective_bp.html


United States Department of the Interior Minerals Management Service Gulf of Mexico Region
