CASE STUDY:
BP in the Gulf

By now, the story is well known. On April 20, 2010, BP’s Deepwater Horizon oil rig exploded, killing 11 rig workers and setting off a massive oil leak at the mouth of the damaged deep-ocean well. Months later, the ruptured well, situated 50 miles off the Louisiana coast, continued to spew millions of barrels of oil into the Gulf of Mexico, causing an ever-widening spread of destruction and despair among fishermen, residents and businesses that depend on the pristine waters and beaches of the Gulf for a livelihood. From an economic, political and brand perspective, few corporate disasters in industrial history can match the situation in which BP finds itself.

At this writing, after three months of gushing oil, an underwater camera displayed that the oil had finally ceased to flow. BP issued a statement urging caution, but also indicating that the leak had most likely been plugged. At the same time, more than 30,000 vessels, large and small, were scouring the Gulf to clean up the oil. The company had come under fire from all sides — environmentalists, Gulf Coast residents, business executives, the media and the president of the United States — and seemed at a loss as to how to put an end to the crisis. In fact, media reports stressed the chaotic nature of the situation, and both BP and the federal government were under intense scrutiny and criticism for the handling of the crisis.

From a public relations point of view, it was every CEO’s nightmare come true. BP’s share price plunged and eight weeks into the crisis, the company’s stock had lost nearly half its value. President Obama expressed outrage that BP had initiated a $50 million advertising campaign to try to salvage its image and had announced it would pay a dividend to shareholders over the summer. BP, he insisted, should be spending its money on repaying the victims of the spill. In a speech broadcast live from the Oval Office, President Obama said, “We will make BP pay for the damage their company has caused.” The next day, BP’s then-CEO, Tony Hayward, and chairman, Carl-Henric Svanberg, were summoned to the White House, where they agreed to put $20 billion into an escrow account to pay for damages and to cancel stockholder dividends for the year. Svanberg then held a press conference during which he apologized for the accident. Shortly after, Hayward removed himself from day-to-day oversight of the disaster and put an American, Robert Dudley, in charge. Dudley then replaced Hayward as BP’s CEO.
BP, it turned out, was not unfamiliar with oil-related disasters. In 2005, at its Johnson City, Tex., oil refinery, an explosion killed 15 workers, an event later attributed at least partially to cost-cutting. In 2006, a BP oil pipeline ruptured and spilled more than 200,000 gallons of oil into Prudhoe Bay in Alaska. With such a track record, BP is receiving very little compassion from its critics.

Though BP is a highly profitable and cash-rich giant ($17 billion in profits in 2009), the first whispers on Wall Street were heard in June that the company might indeed have trouble surviving this crisis intact. Rumors of a potential takeover or even bankruptcy were rampant as BP’s shares tumbled and litigants began lining up. Hayward responded by putting out a statement: “There is no objective justification for this share price movement.” This followed an earlier press statement in which he told reporters: “There’s no one who wants this over more than I do. I’d like my life back.” That statement met with widespread criticism.

As the weeks passed, BP’s troubles mounted. Oil continued to flow from the damaged wellhead, and estimates of the actual amount of oil being lost grew exponentially from 1,000 barrels a day, when the crisis began, to as many as 60,000 barrels a day, at this writing. Unable to cap the damaged well, BP’s efforts to focus on both the cleanup and its damaged corporate reputation were under increasing pressure. Britain’s new prime minister, David Cameron, weighed in and suggested that BP was being unfairly criticized in the United States. For its part, BP continued its advertising to try to reassure the public that it was not only sorry for the situation but was also committed to making it right, no matter the cost.

For BP’s board, executives and shareholders, the company’s future was enshrouded in a dark cloud. How would BP recapture its business momentum in the light of a catastrophe of this scope? As this case study unfolded, Briefings asked four crisis and risk management experts to weigh in.

Rear Adm. **Marty Evans**, retired, United States Navy, president and CEO of the American Red Cross during and after Hurricane Katrina.

I had the Tony Hayward role at the Red Cross during Hurricane Katrina, then Rita and Wilma too, which came back to back. So I am very sensitive to the BP role in this situation. We had a long-term problem, which required coordinated, joint solutions with many player agents in the mix. People say, “Something should be done.” But sometimes, nothing can be done — at least not as fast as everyone would want.

When I speak on crisis leadership, one of the points I make is that it is what you do between the crises that really counts. You have to look at lessons learned, imagine the risk you are dealing with, strategize, plan, exercise and train. You have to do all these things and even if you don’t identify a risk beforehand, you will be better prepared to address it if it happens. BP, for example, was not new to catastrophic events. The company’s prior oil disasters should have been fresh in executives’ minds.

In addition, executives need to identify the players who are going to be in place when a crisis happens. There is a whole range of advisers you will be depending on, and they have to be identified in advance.

I’m convinced that a fair number of corporate lawyers are advising BP’s CEO and telling him what he cannot do and not enough advisers are telling him what he can do. Every company in the universe ought to be learning from this crisis. You won’t be able to identify every risk. But the more you’ve worked and exercised on what you can identify, the better it sets up behavior patterns and organizational patterns on how you might deal with something you didn’t imagine.

Once a crisis is under control, corporate leadership must focus with laser intensity on what was learned and what will be done differently in the future. Let me tell you how hard that is. You’ve got people working as hard as they can on a crisis, and then you bring in a team to do a post-mortem. It is as hard to be really self-critical as it was to deal with the crisis in the first place. But as a leader, you have to have the fortitude to do it. There is no book to read for the next time.

Another key lesson: Values matter. There’s an important difference between doing the right thing and doing things right. All the lawyers will tell you to do things right, but you want to do the right thing. The right thing is to be open and share. A CEO sets the course and tone about what are the important values. You are taking care of people, being transparent, open, honest, sharing facts, acting when you can, communicating. Those are critical things you have to do. But from the lawyers’ perspective, being open may not be doing it right.

Also, you must communicate. In a disaster, there’s no such thing as communicating too much. BP has been reactive and defensive. Both the administration and BP are to blame for not communicating clearly what is going on. Early estimates of the damage, the scope of the spill, the existence of underwater oil plumes and a list of possible solutions were all ambiguous and misleading. Things had to be dragged out of BP. There was a sense that it was hiding something.

The board of directors has a key role as well. They must
find the right CEO. Some people are great leaders but become paralyzed during crises. They just don’t have a natural gift to connect and communicate with the constituencies that they need to connect with. More than ever, it is up to the board of directors to evaluate and hire the right CEO, especially for companies in high-risk industries like oil and finance. Though it isn’t easy to illuminate in advance how any individual will react in a crisis, corporate boards must do everything possible to identify individuals with not just day-to-day operational skills but with the skill set required to be effective leaders during a crisis.

Jonathan Bernstein, president of Bernstein Crisis Management Inc. in Los Angeles and author of the book, “Keeping the Wolves at Bay."

This is a seminal moment for BP and for the oil industry. What they do in handling this could determine whether this country finally turns in the direction of finding a safer way of getting energy. It is the oil industry’s equivalent of a nuclear reactor meltdown. For BP’s leaders, there are very few options. Whatever their technical legal liability is, they’ve been so severely damaged because of their lack of advanced preparedness that my recommendation would be to be bold and proactive. For any chance to salvage the company’s reputation, they should make a public pledge to liquidate any assets they need to in order to make things financially right for everybody damaged, regardless of whether BP is required to or not. They’ve got the assets with which to compensate the fishing industry, the tourist industry and everybody who has been damaged there.

The only thing a CEO should do in this kind of situation is express tremendous remorse for what has happened and tell people what the company is going to do to make it right and prevent it from happening again. It’s very important to come across as being on top and in control, even if in many respects you are not. For example, Rudy Giuliani, New York’s mayor when Sept. 11 happened, was an excellent role model. His manner of communication was so reassuring and compassionate, regardless of what was actually happening operationally, that people felt better. He said later he was able to do this as a result of relentless preparation, a lot of training about what you should say and how you should say it from a crisis communications standpoint. He was so well prepared that it wasn’t until a year after Sept. 11 that people realized that the operational preparedness was horrible.

When the Exxon Valdez disaster happened in 1989, Exxon’s executives made several big mistakes. They were very slow to respond, and the CEO failed to be on the scene quickly. Today, when I make presentations, I say the word “Exxon” and everybody in the audience says “Valdez.” That’s the long-term association. That crisis didn’t hurt their bottom line, but part of the reason was that we didn’t have the Internet then. Today, we have millions of people, all of whom are essentially reporters. Everyone has video, audio, print and an instant way to share all of it. The potential for reputational damage today is several orders of magnitude higher than it was for Exxon. This incident will live on longer for BP.

Robert Meyer, co-director of the Risk Management and Decision Processes Center at the Wharton School of Business of the University of Pennsylvania.

Individuals involved in complex tasks tend to focus myopically, seeing their own risk as minimal. For example, an individual who was responsible for making sure that the methane was released from the pipes might have cut his test time from a recommended 10 hours to just over half an hour to save time. That one decision may not seem especially risky from a narrow perspective but when viewed in concert with all the other issues involved might greatly elevate the overall risk. There is a tendency for individuals to not be aware of the holistic level of risk that a system faces when there are a lot of different
time is the emotional memory of these things, and that is what is difficult to overcome. The pain that is caused and the emotional trauma tend to fade and that sense of emotion, that emotional trauma, is what really kicks people into action.

BP has obviously had a hard time remembering, given its track record. In the oil industry, if a company is not personally going through what BP is going through, rather than saying, “Why don’t we try to simulate this and believe this is us,” there is instead a natural tendency to say, “Thank God it’s not us.” And once you have that mind-set— that it could never happen to you—you are in trouble.


With crises in the food and airline and toy industries, once a crisis starts, it ends. If something goes wrong with food on the shelf, as it did with Coca-Cola in Belgium in 1999, the food can be taken off the shelf and at least the problem

Risk management must be a long-term focus, not a short-term solution.
part of the crisis is over. The same is true with toys. When Mattel imported tainted toys from China, it took them off the shelf and the problem part of the issue was over. The same is true with airlines. If something happens to a plane, it’s a tragedy, but when it’s over, it’s over. You address the tragedy, you take your hits to your revenue, your reputation, your trust, but then you begin building it all back.

In the case of the BP spill, it’s not over. In fact, the leak hasn’t stopped, and it continues day by day. So, it’s different from a traditional crisis because it’s ongoing, which means most things in the traditional crisis manual won’t work in this type of situation.

And then, just think about the impacts. Here’s a British company that’s now affecting the lives of poor fishermen and hoteliers in the Gulf, but also affecting the career and reputation of the president of the United States. So, the first — and perhaps most important — thing to do is to find out exactly how far this can go. How bad can it get? What’s the extent? And then disclose it.

But there’s a missing ingredient here, and that is that the people at the top of BP should have moved quickly to close the gap with government organizations in the United States at the federal, state and local levels. They should have done this early on. In fact, putting aside the rules of protocol, the people at the top of BP — Hayward and his team — should have been in touch with the president, or at least as close to him as they could get. They should have said, “We have a problem.” Then, they should have done whatever they could to close the gap between BP and everyone affected by the spill, from the fishermen to the president.

The idea of trying to close the gap would be to try to create the impression that everyone is working on the same team. So it’s not just BP’s problem. It’s a shared problem and everyone’s working to fix it. Now, all you need to do is look at the president’s comments to see that’s not the situation. Right now, BP’s the enemy. I’m not saying there should be love between all the parties, only that the gap needs to be narrowed. The aim has to be to collaborate.