BRITISH PETROLEUM (BP): A CRITICAL ANALYSIS OF ITS CORPORATE AND INTERNATIONAL STRATEGIES

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ABSTRACT:
British Petroleum (BP) PLC is a world’s largest oil and gas company with headquarter in London, UK. BP has operations in about 80 countries, which produces nearly or equivalent to 3.8 million barrels of oil per day and runs nearly 22,400 service stations in the world. The revenues shows that it is the third largest company in energy production and listed as the fourth world’s largest company and is sixth super major producer of oil and gas. This study analyses the external environment and the internal environment in which BP operates using significant strategic management tools like PESTLE analysis, Porter’s Five Forces and VRIO Framework. Based on this Analysis, the Core Competencies and Distinctive Capabilities of BP are identified using a SWOT. The Business Level Strategies, Corporate and Global Strategic Choices of BP are reviewed and evaluated for their Suitability, Feasibility and Acceptability.

1.0 INTRODUCTION

Its headquarters is at Texas and BP America is the largest oil and gas producer in US. BP has come across many controversies regarding environment, safety and political in its industrial history, which involves Sea Gem incident in 1965 and the most recent Gulf of Mexico oil spill in 2010. BP is listed primarily on the London Stock Exchange as BP and BP in New York Stock Exchange. It is also a component of FTSE 100 Index.

Earlier British Petroleum is a global oil and gas company was headquartered in London, United Kingdom. In revenues BP is measured as the third largest energy company and the fourth largest Company in the world and is one of the six oil and gas "super majors". It is been operated over 80 countries which produces around 3.8 million barrels of oil equivalent per day and runs with 22,400 service stations worldwide. The largest division BP America is the biggest producer of oil and gas in the United States and headquarter lies in Houston,
Texas. On 31 December 2009 it had total proven commercial reserves of 18.3 billion barrels of oil equivalent. The name "BP" derives from the initials of one of the company's former legal names, British Petroleum. Ferrier. (1982).

BP has been involved and considered number of environmental, safety and political controversies during its history, including the 1965 Sea Gem incident and the 2010 Deepwater Horizon oil spill. Its primary listing is on the London Stock Exchange and it is a constituent of the FTSE 100 Index. It has a secondary listing on the New York Stock. Ferrier. (1982).

2.0 Analysis of external environment for BP

Certain tools are used in order to strategically analyse British Petroleum’s external environment, the following external analysis tools such as PESTEL, and Porter’s five forces are used.

2.1 PESTEL Analysis

**POLITICAL**
- International relations
- Political stability in producing area

**ECONOMIC**
- Economic growth

**SOCIAL**
- Income distribution

**TECHNOLOGICAL**
- Exploration technology
- Auto technology
- Alternative energy

**ENVIRONMENTAL**
- Safety and environmental protection
- Green movement
- Re – settlement of people and animal

**LEGAL**
- Environmental laws (pollution laws, safety rules etc)
Political – There is a big problem in the oil and gas industry is Deepwater Horizon disaster that is caused by oil spill in the Gulf of Mexico. This disaster been political to BP and they feel lack with experts to find the solution for this. BP industries was under pressure due to other oil industries because Gulf is to be a most profitable and challengeable property for many other oil industries. By considering the current disaster many of the business people are like to know the price of the oil. Due to the oil price there was a debate between two communities that one community is saying due to disaster it happened and the other community says the change in price is because of there is lack of proper investment on the projects. Both the opinions should be noted. If the rise of price is cyclical and this won’t be there for forever and this is made as structural it will be there for long. The social and political factors influence the price of crude oil.

Economic – US dominating Iraq and their political instability and also greater demand from India and China made the rise in oil prices. To ensure the company stability and capacity to avoid further happening in disaster BP have to invest more on oil and gas production and also in infrastructure too. Inflation rates, exchange rates and investment done by the company should be watched by BP.

Social – BP marketing strategies gets affected by the factor rise in the domestic oil and gas price and they looking for right suppliers. Change in climate is another factor affects the business of BP. Climate change has been another factor that affects much to BP’s business. In social factor income distribution is very important. When the income distribution improves the demand for oil increases because there will be more middle class who buy a car, motorcycle and use more energy. The demand for oil increases when there is improvement in the income distribution because there will be more middle class who using more energy. When there is increase of population the oil demand will grow even though there is no improvement in income distribution so that risk is low for BP.

Technological – The demand for alternative energy increases, integration with markets needs to be done for the technology. Researches show that technology is the key factor for the competition in the alternative energy market. To reduce the greenhouse gas emission BP has to invest lot. To improve sub-sea oil technology BP has to invest on the technology for oil and gas production methods. To develop the skills of employees training should be given to improve with the modern technology.
Environmental – Climatic change will affect the oil industries a lot. To reduce the Greenhouse emissions company has to put more efforts. To maintain the infrastructure and to avoid further damage in the oil wells and pipelines sustainable investment has to be done. To cut the greenhouse emissions of about 40% BP has set a goal by promoting the usage of nuclear power.

Legal – Taxation and Fuel duty (1993) of government acts affects the price of oil. The act of Renewable Transport Fuel Obligation (2005) pressures the consumers to use bio-fuels that can deteriorate the sales in the oil industry. BP should be aware in knowing the EU Emissions trading scheme is to know about the carbon emissions. Road pricing is Local Transport Act (2008). All these laws affect the company operation, their pricing and product demand. BP needs to be considering getting monopolies from the legislation as well as from offshore trade regulations.

2.2 Porter’s Five Forces

Porter (1985) framework of five forces shows how an industry is influenced by these five forces. Considering oil and gas and also its new solar industry this has been done.

Source: Johnson et al, 2008, page no.- 60
Threat of new entrants – As there is a strong competition in the oil industry and there is a strong threat for new entrants into this industry. Low pricing and the strong competition makes others to come into the industry and Albeit BP is a leader of market. In different locations of solar industry, the rate of threats for BP differs. There is an example in US for solar business there is very less profitable market and very few big companies that needs to come into this industry because of legal backup. Soon after BP will become a market leader in US with very less new entrant threat. Germany has a good market for solar industry and some companies are newly started so there is a fine chance for BP in the German market with a likely strong new entrant threat. Whereas in Japan, it is well developed in solar industry and sharp and being a market leader in Japan never allows any new entrants to gain the benefit from the market. Due to its image BP has got an opportunity to enter into this market as a new entrant and good structure across the world.

Buyer Bargaining Power – Buyer bargaining power is moderate due to there is increase demand from the consumers because there is no other alternative fuel for the motors and this shows the moderate bargaining power of the buyer. Due to high expense on production, marketing and advertising the products and brand image is minimal because of the high demand. Existence of low product differentiation is there. Existence of few companies has already made the buyers bargaining power that are very moderate. The buyer bargaining is none or very minimum since only some companies have entered in the solar industry so their demand is also very low. Many companies have to wait for the demand to increase in the market.

Supplier Power – When considering the high number of supplies and maximum size of the supplies and there were a high switching cost for few independent retailer as BP have a very strong supplier power. From the fuel supply chain the big companies are able to do everything. Due to there were not many suppliers the view of solar industry shows that supplier power is huge.

Threat of substitutes – Since the oil price is hike there is a weak threat of substitutes for BP in the oil industry. There is also a weak threat of substitutes in the solar industry its because the companies are in need to pay a very huge switching cost and to get back the investment they have to wait for a long time. BP knows that due to these barriers no big companies are entering into the solar industry. To develop new technologies for its solar industry BP is investing a lot on it.
Competitive Rivalry – In solar industry the competition for BP is moderate due to the huge switching cost and high size of BP and other same companies like Shell and Chevron. There is no chance for small companies to enter in the solar industry as the rivalry price is huge and there are very few large competitors. Due to technology expense, huge switching cost the competition is not that much strong in the aspect of solar energy and demand in the market is less. Competitive Rivalry Competitive rivalry is high as in the world there are many Oil and gas companies (Shell, Exxon-Mobil, PDVSA, Saudi Aramco, Pemex, Emirates Oil, Gazprom etc) competing for access to the same oil producing fields but BP is one of the six oil and gas super majors and is highly competitive.

3.0 Analysis of internal environment for BP
The analysis of the internal environment for BP can be done using the value chain and the competency framework

3.1 Value Chain

![Value Chain Diagram]

Source: Adapted from PetroStrategies Learning Center, 2010.

The diagram of value chain shows that step by step process of production of oil and gas in the industry. Exploration and production are the two categories organising the oil and gas industries. This falls into the upstream and the refining and marketing then comes under downstream and then pipeline, marine, service and supply (American petroleum Institute,
The above diagram shows from the upstream side of the firms generate revenue of 75% and the value addition expense reveals the pump price of oil is about 60%. Oil and gas industry value is more complex such that the corporations are prostrate to different types of risks. (Emst & Young, 2010).

3.3 SWOT ANALYSIS

The strategic capability of an organisation is evaluated using SWOT analysis in order to find out the strengths, weaknesses, opportunities, and threats of BP.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Worldwide operation through a large network (Amoco, BP Express, BP Connect).</td>
<td>• Controversial business launch with Baku-Tbilisi-Ceyhan pipeline.</td>
</tr>
<tr>
<td>• Listed in FTSE 100 Index.</td>
<td>• High petrol cost.</td>
</tr>
<tr>
<td>• Strong brand loyalty (Amoco).</td>
<td>• Explosion of Texas oil pipeline.</td>
</tr>
<tr>
<td>• Strong management of brand.</td>
<td>• Charged criminally due to spread of crude oil in Alaskan tundra.</td>
</tr>
<tr>
<td>• Vertically integrated operation.</td>
<td>• Closure of Alaskan oil wells.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Huge investment in alternative methods of fuels such hydrogen, solar, and natural gas.</td>
<td>• Disaster of natural environment due to Texas oil spills.</td>
</tr>
<tr>
<td>• International expansion looking for more oil reservoirs.</td>
<td>• Pipeline corrosion.</td>
</tr>
<tr>
<td>• Acquisition of strategic oil and gas from North Sea.</td>
<td>• Explosion of refineries.</td>
</tr>
<tr>
<td>• Low price policy to compete with the competitors.</td>
<td>• Strong competitors (Chevron and Shell).</td>
</tr>
<tr>
<td></td>
<td>• Closing of major operations in the main potential areas.</td>
</tr>
<tr>
<td></td>
<td>• Bankruptcy due to oil spillage in the Gulf of Mexico.</td>
</tr>
</tbody>
</table>

Here the SWOT analysis of BP shows that it has good strengths when compared to other factors of SWOT. The BP weakness shows that it has undergone a very hard way. And also weakness of BP indicates that it has undergone a hard way in its industrial career because of oil spillage in Deepwater Horizon disaster. According to Mullins (2007) view he says the weaknesses of an organisation are unconstructive and everything should be corrected over a period of time. More of opportunities were available for BP because of its good respect they have from years ago and brand loyalty. Thereafter Griffin (2008) says in SWOT analysis, the opportunities increase good performance when they are explored. Because of the Deepwater Horizon disaster BP’s performance is huge in the threat factors. Alaskan oil wells were closed due to this disaster. BP strong competitors are Chevron and Shell.
SWOT Analysis for BP

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Further expansion of the company by expanding the production with the use of technology and company image.</td>
<td>• Strengthen the brand and company’s image by reducing the cost, which can be further done by cutting the cost of production.</td>
</tr>
<tr>
<td></td>
<td>• Strengthen the brand image by lowering the cost.</td>
<td>• Pipelines to be established between the most potential areas getting the permission from the government, thus benefiting both the government and the company.</td>
</tr>
<tr>
<td></td>
<td>• Expansion of pipelines to the most potential areas to be done to generate more production.</td>
<td>• Safeguard the brand loyalty by compensating the damage caused to the natural environment.</td>
</tr>
<tr>
<td>Weaknesses</td>
<td>• Invest in the damaged areas to rectify the mistakes done by the company promising to be a good corporate social responsible company.</td>
<td>• Overcome the law suits by handling them wisely without affecting the company’s reputation.</td>
</tr>
<tr>
<td></td>
<td>• Conduct training programmes to the expert fostering them to make wise decisions.</td>
<td></td>
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</tbody>
</table>

This matrix diagram shows by using the strengths and this strength can be converted as opportunities for BP. These strengths can be used to prevent weaknesses too. Same way the threats and weaknesses can be convert as strengths as days pass by and should be handled carefully.

**Strategic Choices For BP:**

Strategic Choices proposed by Michael Porter is based on three levels, Business level, Corporate level and International level which can be analyzed based on the frameworks proposed for each levels.
BUSINESS LEVEL STRATEGY:

Differentiation-BP

Adapted from Johnson et al, 2008, page no.- 225
The business level strategy depends on the strategy the company has chosen based on its positioning to achieve competitive advantage. It is evidently clear from the above analysis of the external and internal and external environment of BP that BP is known for its Quality and hence it falls under the differentiation strategy. A differentiation strategy is when a product has unique features such as design, quality and reliability and hence the customers are ready to pay a higher price for those unique features they consider important. (Boddy, 2008). BP has always had quality and reliability as its unique and differentiated features to gain market positioning and gain competitive advantage when compared to other competitors who use No frills strategy.

**STRATEGIC CHOICES AT CORPORATE LEVEL**

Ansoff matrix is used to analyse the various cooperate choices for BP. By using Ansoff matrix the firm can be able to decide their product and their market strategy for business growth and this is referred as Product-Market Extension Grid.
### Existing Product

<table>
<thead>
<tr>
<th>Existing Market</th>
<th>Market Penetration</th>
<th>New Product</th>
<th>Product Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategic alliance.</td>
<td>High-Quality</td>
<td>Alternate forms of eco-friendly oil</td>
</tr>
<tr>
<td></td>
<td>Tie-ups</td>
<td>Beverages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Joint-ventures.</td>
<td>Food</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Subsidiaries</td>
<td>Alternate</td>
<td></td>
</tr>
</tbody>
</table>

### New Market

<table>
<thead>
<tr>
<th>New Market</th>
<th>Market Development</th>
<th>Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management contracts in</td>
<td>No frills</td>
</tr>
<tr>
<td></td>
<td>domestic &amp; international</td>
<td>products</td>
</tr>
<tr>
<td></td>
<td>market.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Light asset strategy</td>
<td></td>
</tr>
</tbody>
</table>

Adapted from Johnson et al, 2008

**Market Penetration** – As Ansoff (1957) says market penetration in running business with existing products into the existing customers because to buy more products from the company rather than seeing for new customers. As in the market penetration BP is having good market penetration and it has earned brand loyalty from its all customers. It also can serve much more service to the existing customers because they are most potential and valued for the company. Concentrating on the existing customers is best other than looking for upcoming customers and this will be more expensive. To penetrate into the market BP products should be segmented accordingly to make use of it to the existing customers so that can attend to the BP products which would make other customers from other product.

**Product Development** – For the customers such as BP, ARCO, ampm, ARAL, Castrol and also Wild Bean Café who offers high quality coffee, food and beverages BP has come out with many new products to its customers. With this BP competitive advantage is strengthened in the business market.
Market Development – When the market wanted to sell the existing product into the market this strategy is been used. As BP could expand its business in Asian Country such as Bangladesh this strategy is mast recommended to know it. At present this market is for four wheelers and the people from Bangladesh are interested in cars and this will be a good opportunity for BP to get into the market with the existing customers.

Diversification – This strategy is to get into the new market with the new product and there is a little risk in this but BP is a big corporation it is easily achievable. Even after with less demand solar industry of BP started to survive and BP has to consider with the switching cost from one industry to another. As BP doing well in the oil and gas also in solar industry BP can switch them to vehicle industry.

4.3.0 Strategic choices at international level for BP

Multi-Domestic Strategies
BP is one of the world’s biggest company BP has been topic for the discussion with regard to climate change. Due to recent environmental and social disasters BP has become the spotlight one who campaigns. This has given a result, BP has framed a view stating that “To do no damage to the environment” to be more transparent and more alert In the environmental practices. To maintain the vision BP has searched for new ideas to face the challenge. When BP has initiated to be eco-friendly and this result made BP to start manufacture products that are energy efficient.

Two ways of climate change is measured for the impact on climate change they are greenhouse gas emission from their corporations and product usage emission. Report of recent sustainability for greenhouse gas from the use of BP products shows that out of 24,100 million tonnes. BP is emitting 1298 million tonnes of greenhouse gas. In the year 2010 BP has reached the target for greenhouse emission from their operation that will be lowered to 10% and these was achieved in the early 2001 profiting the company about $650 million and this has become operational energy. BP is producing cleaner products such as BP ultimate
that is the fuel which reduces pollution and this is done in order to control the emission from BP own products. In order to reduce the GHG emission many vehicles is been using gas instead of oil. To less the GHG emission hydrogen fuel cell technology is used. With this technology by using hydrogen cell fuels the vehicles emit only water that are good for environment and only in London and Barcelona it is used and not all over the world.

BP is thinking to move its business from oil and gas to solar because it is aware that oil and gas that are going to vanish in the future. Thereafter it is deciding to achieve the solar power to many of the world population. To do this BP has approached more agencies, NGOs and few other private sectors to promote them about the solar energy so that they can install and they maintain those accordingly.

4.3.1 Cage framework:

![Cage Framework Diagram](image)

Adapted from Chaffey (1985)

**Cultural distance:**

BP the global oil and gas company has operations in over 80 countries. Its largest division is BP America, which is the biggest producer of oil and gas in the United States and is headquartered in Houston, Texas. The name "BP" derives from the initials of one of the company's former legal names, British Petroleum. Ferrier. (1982). The cultural values of BP
are it is a service oriented organization with a strong brand name and a lot of customer focus and with formal management boards and working groups and committees.

Geographical distance

BP’s strong positioning is in Europe and the American market and based on the analysis of its internal and external environment, it can be suggested that BP has a lot of potential to invest in Asia through Foreign direct investment. This could focus on places like Hongkong, Singapore and Malaysia where the consumer demands are more towards quality and reliability rather than lower price.

Administrative and political distance:

In this area were two variables, the first is international relations, namely the relationship of the company and the UK government with the countries that are rich in oil, ie, if the UK government and the company has poor relationship with the countries possessing the land for drilling, the company may not get access to oil rich fields. The second is the political stability in producing area, which means the company’s operations may be at risk due to political disturbance. BP has the biggest operations in North America and the political risk is therefore low.

Economic / wealth distance

The organisation BP is hugely affected by the economic growth of the country it operates in because if there is an increase in the economy then the demand for oil also increases and this growth in the demand for oil is directly related to the growth rate of the world economy. But if there is a decline in the economic growth, still the demand for oil remains the same and in that case, the risk faced by BP is low. Income distribution is a vital social factor. If the income distribution has been improved the demand for oil experiences a substantial increase because there will be more people of middle level income having the ability to purchase cars and motorcycles and hence the consumption increases. With the increase of the population the demand for oil will grow even if income distribution does not improve so the risk to BP is low.

Evaluation of strategic choices:

The choice of an appropriate strategy depends on various factors like the positioning of BP in the oil market, financial stability and state and its competitive advantage for which the
external, internal and future developmental analysis. According to the researcher’s view it is estimated that market development in the Asian market focusing on the Singapore and Hong Kong market is the best strategy as BP is an energy company and its revenue completely depends on oil. Hence these evaluation of strategic choices is done using three criteria namely suitability, feasibility and acceptability.

**Suitability:**

**Tows Matrix:**

**Internal Factors**

<table>
<thead>
<tr>
<th>Opportunities (O)</th>
<th>Strengths (S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand extension.</td>
<td>Management control.</td>
</tr>
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<table>
<thead>
<tr>
<th>Threats (T)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Expansion.</td>
<td>Product up-gradation &amp; renovation.</td>
</tr>
<tr>
<td>Marketing alliances &amp; tie ups.</td>
<td>No frills products</td>
</tr>
<tr>
<td>Alternate products a</td>
<td></td>
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</tbody>
</table>

**Source: Johnson et al, 2008, page no.- 219**

Based on the Tows Matrix, it helps to analyse the suitability of the chosen strategic choices. The oil and gas industry has many opportunities in Asia for growth and international alliance. In Singapore and Hong Kong, though the competition is difficult, BP has a unique brand name and image which is definitely be an inimitable source of competitive advantage. All these strategies will be finance from the own benefits in the previous years and credits from banks. Although there might be some cultural clashes in terms of centralized vs
decentralized, formal vs informal culture, there are some common cultural values which benefit the organization.

Acceptability
Stakeholder Mapping:

Based on the stakeholder mapping framework, the acceptability of new strategic choice can be examined. In a new market as Hong Kong and Singapore as the demand for Oil is very high as the consuming power of people is relatively higher in these countries and as already discussed, the risks are considerably low. Hence opening new BP stations in the Asian market has the possibility of securing competitive advantage as all the stakeholders which includes employees, customers, shareholders and the government can benefit from the choice as it generates revenue for the government and quality products for customers, more opportunities for employees and a profit making venture for the shareholders.

Feasibility:
Feasibility includes resource deployment and financial feasibility. Resource deployment includes Brand image & strength, Availability of cash to fund increase stocks. Employees skills-expertise, Company’s reputation for quality. Financial feasibility includes Cash flow
analysis and Cash flow forecasting. BP is an organization which operates all over the world and hence it has an expertise and a diverse workforce especially in the managerial position and has contracts with specific suppliers all over the world since its trademark is quality. It is very important for the managers to understand the local demand and specific needs for customers and also establish long and trusted relationships with customers. This strategy will require at least 5 years to be implemented for securing the funds and also doing research

CONCLUSION

As BP is the biggest company in the world it should benefit the common public by coming out with many more new products. With earlier discussed to become a monopoly it should concentrate in the solar industry. In the mean while BP has to be more creative to bring out the technology and they can invest more for the installation of the solar plants. BP can concentrate in the urban and rural areas because rural area people can also use the energy since the solar energy is funded by the government. After solar energy is been used full-fledged hereafter all the people will change them go accordingly for it instead of being dependent on only one source of energy i.e oil and gas.

After the Deepwater Horizon disaster BP will be able to more aware about it and it will take initiative steps in each and every project it is going to invest in. BP is slowly becoming to be a corporate social responsible company because they have reached the set target very before and has earned a good benefit from doing so. It is also working hard to become fully a corporate responsible company so that company reputation and brand image can be maintained.

REFERENCES AND BIBLIOGRAPHY:


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Research interests: Her research interests include Emotional Intelligence, Educational Psychology, Organisational Psychology, Educational Discourse and Pedagogy.