

IB Business Management – Operations Management

5.7 Crisis Management and Contingency Planning



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5.7 CRISIS MANAGEMENT AND CONTINGENCY PLANNING: ASSESSMENT

Read the case study below and answer the questions that follow.

THE BP GULF OF MEXICO DISASTER



On 20 April 2010, the Deepwater Horizon drilling rig exploded in the Gulf of Mexico, killing 11 workers and causing an oil spill that soon became the worst environmental disaster in US history. The rig was drilling in about 1525m of water, pushing the boundaries of deep-water drilling technology. Following the explosion the Deepwater Horizon sank to the bottom of the Gulf after burning for 36 hours.

The US Coast Guard quickly became involved with the incident putting a **crisis management** plan into place. Environmental experts raised concerns about the Macondo well Deepwater Horizon was drilling could be releasing up to 40 000 barrels of oil per day into the sea. A few days after the disaster, oil from the leaking well began washing ashore in Louisiana; fragile coastal wetlands were inundated with thick brown mud, beaches were covered in black tar and a black shadow appeared over hundreds of square kilometres

of the Gulf of Mexico. The US Administration reacted furiously to the incident accusing BP of 'criminal negligence'.

BP made a number of vain attempts to cap the leaking well until it finally stopped the leak in July. BP, under considerable political pressure, announced in June that it would place \$20 billion in a fund to compensate victims of the oil spill and said that it would not pay a shareholder dividend in 2010. By early July BP's share price had fallen by 50 per cent since the

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start of the crisis. The BP CEO, Sophie Geden, came under pressure because of her perceived mishandling of the crisis and received a 'tongue-lashing' at a hearing in the US Congress because BP seemed to have no **contingency plan** to deal with the crisis. Sophie Geden was eventually forced to resign.

Source: www.BusinessManagementIB.com

25 MARKS, 45 MINUTES

1. Distinguish between **crisis management** and **contingency planning** **[7 marks]**

2. Explain how each of the following factors that affect effective **crisis management**
 - i. Transparency
 - ii. Communication
 - iii. Speed
 - iv. Control**[8 marks]**

3. Explain the advantages and disadvantages of **contingency planning** for BP regarding its petroleum extraction activities **[10 marks]**