

How To Prevent Your Company From Becoming Another BP



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If such a disaster can happen to a big company like BP, can it happen to your business?, asks Gary W. Patterson, CEO of FiscalDoctor®, an expert on risk management.

"BP's response to the oil spill is a textbook case for businesses to follow in what not to do in times of a crisis," said Patterson, author of the book *Stick Out Your Balance Sheet and Cough: Best Practices for Long-Term Business Health*.

"BP committed severe risk-assessment, contingency-planning, and crisis-response mistakes which have so far wiped out more than 40 per cent of the company's shareholder value and exposed it to billions of dollars in clean-up costs and lawsuits."

According to Patterson, businesses should learn from this example and not make the following critical mistakes:

- **Underestimating the chances of major or catastrophic risks:** "Did BP get caught up in the 'It can't happen to us' mentality? Companies need to regularly assess the most likely areas where hidden risks might occur," said Patterson.
- **Lacked tested and effective contingency plans:** "BP's backup systems and contingency plans to date have not worked. Companies must test their contingency plans before they are needed to ensure they work, and that they are prepared to move on to the next level of response when necessary," said Patterson.
- **Failure to immediately accept accountability and responsibility instead of trying to pass the blame:** "In Congressional hearings, BP pointed fingers and passed part of the blame onto the rig's builder, Halliburton, and operator, Transocean, instead of immediately stepping up and accepting responsibility. 'The buck stops here' is the only response for companies to take in these situations," Patterson said.
- **Meeting only the required legal minimums instead of doing the right thing:** "BP's offshore rig did not have a \$500,000 remote-controlled, acoustic shut-off switch installed that may have shut down the damaged well, which has a replacement cost of about \$560 million. The switch is not required by US regulators, although two other oil-producing countries, Norway and Brazil, mandate its installation. BP and other oil companies had questioned the cost and effectiveness of the switch to US regulators," Patterson said.
- **Not demonstrating leadership and vision when action is finally taken:** "Why does BP continue to look so disorganised, almost as if its executives are creating a contingency plan on the fly?" asked Patterson.



"The goal is to control your company's financial destiny with adequate procedures and timely information."

– Gary W. Patterson

- **Sacrificing the latest technologies and safety systems to budgetary constraints:** "Budget considerations sometimes delay implementation of the newest technologies until, at the last minute, cost becomes no object. Now BP remains consistently one step behind where it needs to be, as incredibly complex, expensive remedial procedures have to be tried, and there are no other options. Businesses can pay the cost now, or pay much more later," said Patterson.
- **Not providing accurate and timely information to those working in the field:** "What decisions made in the week before and after the crisis would have been different if the other problems on this list did not exist?" asked Patterson.

not cost BP employees, executives, suppliers and shareholders their company; it has definitely demolished the value of the stock that individual investors hold," said Patterson.

"Companies with far less shareholders' equity than BP should be concerned. Much smaller companies that are part of the oil industry, or sell to the oil industry, will be decimated. While BP will get bailed out and survive this catastrophe, no-one will come to the rescue of a smaller company that doesn't have a BP global status," Patterson added.

FiscalDoctor® works with leaders to control their financial destiny and capitalise on hidden, high-return opportunities, while limiting exposure to risk. It offers services

"Compare the BP fiasco to the classic example of how well Johnson & Johnson handled its Tylenol nightmare years ago. Part of Johnson & Johnson's success in dealing with the crisis was the result of a well-thought-out contingency plan, superb execution, and taking immediate responsibility. The public's approval of the company's action was expressed through its increased market share. This is a far cry from the negative impact on the BP brand, as well as the entire oil industry," said Patterson.

Patterson recommends that companies adopt the following seven-step emergency plan for dealing with potential risks:

- Commit to contingency planning.
- Establish a risk-tolerance framework.
- Identify potential risks that your company may be up against.
- Highlight worst-case catastrophic and critical risks.
- Identify the top five to ten risks that are not included in your financial statements.
- Develop a coherent action plan that is approved by your executive team.
- Establish a proactive media policy.

"After all, the goal is to control your company's financial destiny with adequate procedures and timely information. Capitalise on hidden high-return opportunities, while limiting exposure to risk. Otherwise, the cost of what you don't know can be your company. This blowout may

from a financial/operational assessment, identifying key issues for resolution, to a comprehensive enterprise risk-management (ERM) review for creating a roadmap to achieve corporate vision and goals.

For more information, please visit fiscaldoctor.com

About Gary W. Patterson, FiscalDoctor

Gary W. Patterson, FiscalDoctor®, has worked with over 200 companies during more than 30 years of top management experience in manufacturing, technology, wireless, service and distribution in companies including high potential, Inc. 500, middle market and Fortune 500. Patterson has been interviewed or has presented internationally to groups and publications including Entrepreneur, Glass Hammer (UK), Directors & Boards, Risk Management Magazine and Top Producer. He is the author of *Stick Out Your Balance Sheet and Cough: Best Practices for Long-Term Business Health* (<http://tinyurl.com/stickoutbalance>) and speaks on enterprise risk management, risk analysis, strategic budgeting, leadership, and change management.

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