

Chapter 17: Exam practice question (HL only)

BP Gulf of Mexico disaster

- 1 Define the following terms:
- a crisis management (2)
- Steps taken by an organisation to limit the damage from a crisis by handling, retaining and resolving it or, ideally, preventing it from happening in the first place. It is also known as disaster-recovery planning.
- b contingency plan. (2)
- These are the steps, worked out in advance, which should be taken by an organisation in the event of a crisis or emergency.

Apply **Resources table 3a** mark band descriptors.

- 2 Outline the key steps BP would have gone through to produce a contingency plan for a crisis such as the Deepwater Horizon. (5)
- identify potential disasters
 - assess likelihood of them occurring
 - minimise potential impact by protecting fixed assets, people, reputation, public goodwill
 - plan for continued operations so the business can begin trading again as soon as possible

HL: apply **Resources table 2** mark band descriptors.

- 3 Analyse the reasons why the BP share price fell by 50% following the Deepwater Horizon crisis. (7)
- Uncertainty about future profits or potential huge costs makes shareholders sell, thus lowering the price of shares.
 - Fallen reputation of BP may make some shareholders sell.
 - Ethical and environmental reasons may make some people sell their shares.
 - BP was accused of 'criminal negligence'. This could be very costly if it went to court and so people sell their shares in case the price goes down.
 - Mishandling of the crisis may have lost public goodwill.
 - US government involvement could result in uncertain reprisals or fines.
 - Shareholder dividends are not being paid in 2010. Some investors may rely on dividends for their income and so would have to sell.
 - Resignation of the CEO may leave BP with an uncertain management future, leading investors to sell.

HL: apply **Resources table 2** mark band descriptors.

- 4 Discuss the likely benefits and limitations of BP's contingency planning when preparing for any future disasters like Deepwater Horizon. (9)

Benefits:

- reassures internal and external stakeholders
- minimises impact in case of a disaster
- PR response is more likely to be speedy and appropriate; senior managers would be able to explain in a coordinated and consistent way what the company intends to do, by when and how
- any other relevant point

Limitations:

- costly, time consuming and may never be needed
- needs constant updating
- staff training needs to be increased if labour turnover is high
- avoiding disasters is preferable to planning what to do if they happen
- any other relevant point

The wording of the question does not indicate that a conclusion is needed, but 9-mark questions usually need a conclusion. This is usually signalled by the word 'evaluate' rather than 'discuss'.

Suggested conclusion: a combination of benefits and limitations means that there is no conclusive indication that contingency planning should not be done. It is therefore probably better to do it within reason, bearing in mind the realistic limitations of contingency planning in dealing with possible disasters.

HL: apply **Resources table 2** mark band descriptors.