



[Ben W. Heineman Jr.](#) - Ben Heineman Jr. has held top positions in government, law and business. He is the author of *High Performance with High Integrity* (Harvard Business Press, 2008).

BP's Accident Report: Look at the Recommendations for the Future

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The recent internal BP report on the *Deepwater Horizon* accident described eight causes of the explosion and fire, taking relatively little blame for itself. But, although most of the news stories focused on the "causes," the report also contained 25 recommendations for future action (buried at p.181) which are, in fact, a searing indictment of BP.

From failure of cement on the ocean floor to failure to perceive gas in the well to failure to divert gas away from the rig to the explosion and the failure of the blow-out preventer, the BP report assigns most, but not all, of the blame for the eight "causes" to its contractors. (*The Wall Street Journal* had a full page headline: "BP Pins Most of Blame on Others.")

The report explicitly said it was not evaluating evidence gathered against contractual or regulatory standards nor was it assessing the credibility of various witnesses who offered different accounts of events. Nor did it review any investigations by other companies or by the government (e.g. Coast Guard, Justice Department, Presidential Commission). Nor did it address larger question of BP organizational and cultural failures.

In short, as a measure to assess past accountability, the report is a very limited first step, with major legal battles between the government and the private parties and between the BP and its contractors (and partners) still to be fought out in the months (and years) ahead. Now that the oil has stopped flowing, the report was a one day story, in part because it was seen as the first, incomplete and one-sided word on causation and as an attempt to minimize BP liability (despite BP's disclaimers that the investigation was not concerned with legal standards).

But the 25 recommendations deserved more attention because, by strong implication, they indicate more systemic BP failures which led to the major human and environmental catastrophe in the Gulf. (Not surprisingly, the report disingenuously said "it should not be inferred that by making such recommendations, the team viewed these matters as causal or contributing factors in this accident." Obviously, it believes that if the recommendations had been implemented before the accident, the accident would not have happened). Without getting into detail which can be found in the report, the recommendations cover such subjects as:

- Developing better, clearer standards and processes for a range of activities in deep-sea drilling from cementing, to testing for leakages, to well control and general risk management
- Significantly improving education and training of BP personnel to enhance capability and competency
- Strengthening BP audit processes to improve close-out and verification of actions to remedy deficiencies found in safety audits
- Implementing much greater oversight of contractors' current practices relating to cementing, well control, rig process safety and blow-out preventer design and safety.
- Requiring contractors to develop and implement audit-able safety processes, including identification of key indicators---processes which BP can review

Really? These elements of safety management and a safety culture didn't exist before and need to be put in place in the future?

These recommendations, while partial, are important to three fundamental questions about how to handle in the future the balance between securing oil through deep-sea drilling and managing the risk of that enterprise.

First, how should BP itself be organized to create clear accountability and responsibility of safety management processes, and a safety culture that minimizes risk commensurate with potential catastrophic impact and that prevents cutting corners for cost, time or other pressures?

The recommendations in this BP report go to operational issues, but much deeper questions go to the respective roles of the board of directors, the CEO, senior business leaders, operational leaders and front-line employees. The report barely touches on these profound accountability questions relating, ultimately, to company culture.

Second, how should BP share both economic gain and economic risk with its contractors? This, too, is a very profound question that arises frequently today as major

corporations seek to reduce cost by outsourcing complex functions critical to potentially dangerous processes (drilling) or products (blow-out preventers).

My view, in the broad, is that companies cannot and should not escape responsibility for dangerous processes and products through out-sourcing. Senior management of BP understands now, if it didn't before, that the Gulf catastrophe is a BP problem--- politically, and, in important part, economically. Given the consequences, lead companies either must reverse the sourcing process and bring dangerous process and products back inside the company to maintain adequate control, or have very tight operational and oversight controls on critical contractors as if they were part of the company.

Lead companies can run, but they can't hide. Contractors can be liable in contract for fraud or bad intentional acts, but the lead company, ultimately, must ensure operations keep risk to an irreducible minimum.

Third, what is the proper division of private and public responsibilities? Clearly, the government will, and should, mandate certain standards on the issues (and others) raised by BP's recommendations. Similarly, it should mandate, in the broad, certain safety monitoring and auditing processes. Finally, it should have a regulatory agency which, in contrast to the performance of the Interior Department's Mineral Management Service, faithfully ensures the regulations are implemented and remains at arms-length from industry.

Yet, finding the right balance between government oversight (and not overkill) and business discretion in handling complex internal processes is especially difficult in an area as fraught with serious consequences (and emotion) as the future of deep-sea drilling. Hopefully, it is this issue which the presidential commission can address with some analytic calm and insight.

The 25 recommendations in the BP accident report thus raise but hardly answer these three fundamental future issues. The issues need to be followed even more carefully than the looming fight over "causes" which will broadly fix past responsibility in an operational sense and more technically apportion economic damages between BP and its contractors in a legal sense.

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