

LEARNING FROM THE GULF OIL SPILL TO PREPARE FOR A BRIGHTER FUTURE: A NEW GAME ENGAGING STAKE HOLDERS IN TRIPLE BOTTOM LINE ACCOUNTING & STRATEGIC PLANNING

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ABSTRACT

In the aftermath of the Deep Water Horizon spill, it has become evident that strategic management is no longer just applicable to the 'above and beyond companies'. It is imperative for companies to utilize strategic management to be competitive and responsible in the market. This does not only include future-oriented decisions for the firm, it also means the interests of stakeholders, (including the natural environment) must be incorporated when creating a response plan. Taking this into consideration, this paper introduces an experiential learning game that demonstrates the importance of stakeholder theory and triple bottom line accounting in creating a strategic response plan.

INTRODUCTION

On April 20th 2010, one of the largest ecological disasters in the history of human existence occurred when, at 11:00 p.m., the Deep Water Horizon oil rig, leased by British Petroleum (BP) exploded, tragically killing 11 workers (Fox News, 09/2010). The explosion caused the eruption of an oil well 5,000 feet below the surface in the Gulf of Mexico and released an estimated 205.8 million gallons of 'toxic sludge' into the marine environment, posing a threat to everything in its path (Bourne, 2010). Over the next four

months, oil from the Deep Water Horizon site spewed into the surrounding marine environment at a rate of approximately 28.3 gallons per second totaling the equivalent volume of 311.6 Olympic-sized swimming pools (Bourne, 2010). "Previously, the Mineral Management Service (MMS), a US federal agency that regulated off-shore drilling, had theorized that the probability of a blowout the caliber of the Deep Water disaster was less than one percent" (Bourne, 2010). However, after the BP explosion, it became increasingly clear that the MMS theory, along with similar theories postulated by other societal stakeholders, had heretofore been relatively untested. In fact, in the next few months after the explosion, it became evident that much organizational planning for such an event on the part of many stakeholders had been inadequate, perhaps purely theoretical at best.

BACKGROUND

Prior to the Deep Water Horizon oil rig disaster, BP had proactively developed a 582-page response plan intended to address such an event. But, in the aftermath of the spill, BP, their principals, consumers, government regulators, and other stakeholders have continued to see that there is much to learn about the impacts, and as important pro-action in the event of such a disaster. Undoubtedly,

many societal stakeholders prior to the spill did not question BP's precautionary measures with regard to the Deep Water Horizon rig. Because BP is an industry leader, and at a minimum, one would think they must have complied with all regulatory requirements, and, in the interest of best business practices, have proactively articulated all possible outcomes and resolutions to a possible oil spill. However, mistakes on the part of BP's response plan, emphasizes the need for closer examination of the spill as a means of demonstrating the level of strategic planning essential to create successful responses for survival of businesses, the natural environment, and other critically important stakeholders.

Just over a month after the initial Deep Water Horizon disaster, the US government, whose MMS agency had previously assured the public that an accident of such magnitude was unlikely, imposed a six-month moratorium on all new drilling sites in the Gulf of Mexico (Gelsi 2010, Parsons & Muskal 2010). During the spill cleanup efforts, multiple reports (Fox News, 2010 & Rascoe, 2010) indicated that the spill was not an anomaly. Rather, the public learned that there were well over 100 wells in the Gulf of Mexico, many of which were in poor repair (Wells, 2010). By mid-October, 2010, the six-month ban on new oil well drilling in the Gulf was lifted due to concerns over its impact on the US economy and on other influential stakeholders (Parsons & Muskal 2010). But, if strategies for addressing risks such as the miscalculated and mismanaged ones that resulted in the Deep Water Horizon disaster actualize themselves, other firms may find themselves in a similar reactive state, comparable to BP and its industry constituents. More importantly, if other such risks actualize, impacts on the environment and global society could be devastating. By minimizing/downplaying risks of such disasters, firms such as BP and their constituents may have staged themselves and other stakeholders to react when business crises that predicate environmental and social crises become imminent. This could result in greater costs and increased vulnerability for all involved in the situation. Therefore, we assert:

1. Companies must have feasible response plans in place so that when they face business and/or environmental crises; they can strategically minimize negative impacts for all stakeholders involved.
2. Creation of such feasible response plans must involve a stakeholder approach.
3. Creation of such feasible response plans must utilize a form of triple bottom line accounting.

This paper introduces an experiential learning exercise designed to engage stakeholders in such a strategic management process from the perspectives of a multiple stakeholder approach and utilizing triple bottom accounting. The exercise is appropriate for upper level undergraduate students, first year MBA students, and organizational stakeholders engaged in strategic management courses and/or processes.

WORKING DEFINITIONS

STRATEGIC MANAGEMENT

Strategic management requires that a company have a pro-active and future-oriented approach to managerial decisions, regardless of the size of the firm. True strategic management embodies a company's mission statement and objectives with regard to: organizational structure and culture, external environment, internal analysis, short and long-term objectives, functional tactics, strategic control, innovation and entrepreneurship (Pearce & Robinson 2010, p. 20).

STAKEHOLDER APPROACH

A stakeholder approach to strategic management must be utilized in order for a company to truly function strategically with regard to complex problem solving such as that required for the Deep Water Horizon disaster in the Gulf of Mexico. The stakeholder approach requires planning that is foundational for knowledge-sharing and relationship building during times of uncertainty, and especially in the event of need for crisis management such as was involved in the recent BP disaster. The stakeholder approach not only stresses the importance of recognizing stakeholders as individuals or groups with legitimate rights and sway in daily corporate operations, it also enforces the idea that recognition can be utilized strategically to make smart decisions on the part of all parties. By employing a stakeholder approach, managers can create strategies to forgo and/or minimize potential crises by approaching them systematically with openness and transparency. Without using a stakeholder approach a company cannot be fully aware of the impacts its actions have on society.

TRIPLE BOTTOM LINE

To increase awareness of and minimize risks related to impacts of their decision making, a firm must measure effects on society and the natural environment, as well as to the economy. The components of triple bottom line are defined as:

- Economic - Attempts to better value a company's performance more so than simply accounting fiscal costs. Examples: Opportunity cost, jobs created/higher unemployment rate, increase in productivity, profitability, investment measures (ROI), etc.
- Social - Attempts to value a company's impact on society. Examples: Health Care, community impact, human rights, labor practices, and product responsibility, etc.
- Environmental - Attempts to value a company's impact on the environment. Examples: Air and water pollution, energy usage, solid waste produced, etc. (Savitz, Weber, 2006)

When using solely financial accounting a corporation runs

the risk of not accounting for other forms of value - positive or negative - that the firm has. Whereas single bottom line accounting takes into consideration explicit costs, triple bottom line also includes implicit costs of economic, social, and environmental decisions. By recognizing the importance of measuring explicit and implicit costs related to all three of these decision categories, triple bottom line accounting broadens financial statements to incorporate economic, environmental, and social parameters.

PURPOSE

In order for a firm’s strategists to make informed decisions, they must be fully aware of the consequences associated with the severity of impacts incurred by all stakeholders, especially in a potential crisis situation such as that recently experienced by BP. If this level of understanding does not occur within a firm, corporations risk operating from a narrow-minded perspective, using decision making processes which, in turn, could lead to underestimation of crisis potential, similar to that of BP’s underestimation of the impacts of April 20, 2010 oil spill. The following experiential learning exercise is designed to assist future business decision makers (e.g., upper level undergraduate and first year MBA students) in increasing their level of understanding and self-efficacy in areas of strategic planning specifically related to proactive problem solving, stakeholder strategy, and the value added from triple bottom line accounting.

PROACTIVE PROBLEM SOLVING

Proactive problem solving is an essential skill for complex problem solving. Read (1998, p. 2), who stresses that emotions are the bridge between the mind and the body addresses the importance of students gaining confidence in their problem solving skills. Indeed, students with little confidence in their problem solving abilities may thwart their own attempts to finding solutions (Reed 2010, p. 7).

STAKEHOLDER STRATEGY

Stakeholder Strategy, successfully utilized, leads to a stakeholder approach in which four components are addressed:

1. Identification of stakeholders - is fundamental for a firm to fully understand the ramifications their decisions impose on stakeholders. There are “three criteria for identifying significant stakeholders:
 1. They supply resources that are critical to the success of the enterprise.
 2. They place something of value ‘at risk’; that is, their own welfare is directly ‘affected by the fate of the enterprise.’
 3. They have ‘sufficient power’ to affect the performance of the enterprise, either favorably or unfavorably.” (Post 2002, p.19)
2. Understanding the stakeholder’s specific claims - Through increased understanding of stakeholder diversity, it becomes evident that the claims of the stakeholders cannot be universal in nature, but instead each will be unique. This demands that a firm’s decision makers understand the specific claims of individual stakeholders. The specificity of each claim makes it impossible for all the claims to flow harmoniously with one-another.
3. Reconciliation of these claims - Appendix B accurately depicts how diversified a company’s stakeholder portfolio often is, and this diversity exemplifies why it is necessary to understand the specific claims of each stakeholder relative to the firm. It is imperative that companies recognize that their stakeholder’s claims will frequently conflict.
4. Assignment of priorities to stakeholder claims - Independently, yet simultaneously, companies must prioritize what claims are most relevant to the specific decision being made. Thus, it is inevitable that the prioritization of each stakeholder will change based on the decision at hand. As the desired results for making an initial decision change, it can be expected that the pri-

Exhibit I Potential Ordering of Stakeholders During a Crisis

Typical	Specific Oil Plan
Principals/Stockholders	Environmentalists
Customer/Consumers	Principals/Stockholders
Competitors	Government
Environmentalist	Customer/Consumer
Government	Competitors

Source: (Pearce & Robinson, 2011)

oritization of stakeholders will become variable as well. (Pearce & Robinson 2010)

STAKEHOLDER APPROACH TO STRATEGIC MANAGEMENT

Coordination with all of the above elements causes dialogue regarding the trade-offs and greater satisfaction between the stakeholders/claimants and the firm. Strategic management requires balancing the tradeoffs by constantly evaluating how best to serve the present and future interests of the company and its stakeholders. Coordination of these two priorities emphasizes how the stakeholder approach significantly influences strategic management and, ultimately, organizational success. The most commonly referred to stakeholders, both internal and external to the corporation, are illustrated in Exhibit I. More specifically, Exhibit I illustrates the difference in stakeholder prioritization that may occur between a typical decision and a proactive plan in regards to an oil spill.

VALUE ADDED FROM TRIPLE BOTTOM LINE ACCOUNTING

In most cases, the costs and benefits an organization encounters with regard to economic, social, and environmental performance influence the organization as they ultimately reflect the interests and concerns of its internal and external stakeholders. Therefore, each triple bottom line component should focus on independent, as well as interdependent, quantification of the explicit and implicit benefits or costs associated with any business decision. Examples of such costs are shown in Exhibit II.

Unfortunately, sometimes explicit and implicit costs to stakeholders and the firm can be difficult to quantify, for there is no finite consensus regarding how to determine the

value of valueless items. For example, how do you place a value on the future extinction of an animal, or how do you quantify the emotional impact of an oil spill on an environmentally-reliant community? Despite this difficulty, it is essential that a company must incorporate all costs and benefits associated with any business decision, particularly decisions regarding the formulation of a response plan. By doing so, a company is not only more aware of how their daily decisions impact the future, but also their response plan will be more applicable and more cost accurate. When a company is aware of its decisions' impacts, they are more able to be strategic and proactive in their business operations.

The individual summation of the economic, environmental and social components will either be positive or negative, yet this alone is not an indicator of strategic management. The best indicator is when the projected value of each component is equal to the actual value. Thus, in daily decision-making, the spread is usually minimized. If not, the company either did not adequately acknowledge certain costs and benefits that were relevant or they over acknowledged them. The larger the spread, the more inaccurate their assessments of costs and benefits per decision will be. As a result, this spread is extremely important and most evident when creating a strategic plan. Accordingly, the management's goal is to best quantify all costs and benefits associated with a crisis, so that they can create a plan of action that focuses on the minimization of the spread between the actual and estimated implications of a disaster. This will allow an organization to accurately forecast future implications of a crisis occurring, and therefore being proactive and strategic in responding to such a crisis.

THE GAME

Goals/Objective:

- Identify Slick Oil Company's stakeholders

Exhibit II
Possible Implicit and Explicit Costs for Various Stakeholders

Implicit Costs	Category	Stakeholder
Destruction of marine environment	Environmental	Environmentalists
Pollution	Social & Environmental	Local Industry, General Public, Environmentalists, etc.
Opportunity Cost	Economic	Executives, Principals
Explicit Costs	Category	Stakeholder
Increased operating expenses	Economic	Executives
Tourism Revenue	Social	Local Industry and Community
Clean-up costs	Environmental	Executives, Employees, Principals, Consumers, etc.
TOTAL	Certain implicit costs can be hard to quantify, therefore it can be difficult to accurately depict the true total costs.	

- Articulate why each stakeholder wants Slick Oil Company to thrive in its industry
- Formulate ways to which Slick Oil Company can meet the needs of each stakeholder
- Recognize all stakeholders claims to generate a proactive response plan

Group Size: Activity Dependent (Refer to variations)

Time required: 100 minutes (hour and forty minutes)

Materials Needed: Instruction Sheet, Handout, and White-board Space.

Physical Setting: Any classroom or discussion –facilitating environment with board space

Process:

- Introduce Assignment
- Brainstorm Stakeholders
- Divide into groups
- Write paragraph stating importance of interdependence of stakeholders for Slick Oil Company
- Assign groups a stakeholder
- List 5 concerns your stakeholder would have in the event of an oil spill
- Create a way that Slick Oil Company can address each of these concerns
- Write 5 solutions to concerns on the board for every group to view
- Within groups, discuss all solutions to concerns on board and prioritize
- Use what you prioritized in previous step to create an initial strategic response plan
- Variations:
 - First and foremost, there are two unique ways to divide the class into groups for the activity
 - a. Divide the class into 4 to 8 groups.
 - b. Take the class size and divide it by the number of brainstormed stakeholders.
 - Second, there is an optional activity that, time permitting, would act as an extension to the original experiential learning activity.

CONCLUSION

Although BP appeared to be strategic by having a response plan, they clearly did not effectively incorporate the stakeholder approach and triple bottom line; thus it was made evident that the response plan was not applicable to the future and they were not prepared for the full ramifications of a crisis. The active plan they were operating under contained inaccuracies such as miscalculations, bad information, and underestimations. These directly hindered their preparedness to respond to a crisis situation and therefore accentuated the severity of the crisis' impact on the environment.

BP's previous response plan miscalculated not only the amount spilled, but it also overestimated the rate at which the oil could physically be removed from the Gulf. This

spread increased the inaccuracy and inefficiency of their response plan. Additionally, the miscalculations were accompanied by illegitimate citations, and various false documentations of resources. For example, even though the formally published regional spill response plan for the Gulf was 582 pages long, with 52 pages specifically articulating a response concerned with the Deepwater Horizon oil rig, its professionalism depreciated due to numerous errors cite source for this (Jervis, 2010). One of the most significant pieces of bad information that BP provided is that "Professor Peter Lutz is listed in BP's 2009 response plan for the Gulf of Mexico as a national wildlife expert," even though he was known to have died four years prior to the publication of the response plan (CBS News, 2010). Not only did BP include erroneous information, but also they completely underestimated the ecological impacts of the oil spill. These underestimations are epitomized through viewing beaches as safe zones, and articulating on their site plan that there would be "no adverse impact" on birds, sea turtles, and endangered marine mammals (Fox News, 06/2010). The importance of these underestimations lies within the idea that if a worst-case scenario were to actualize itself, a company would not be legitimately prepared to make any organized, responsive action. Had BP developed a strategic plan that more effectively incorporated Stakeholder Approach and Triple Bottom Line Accounting, they would have been more prepared when faced with such an oil spill.

For future executives to understand these points, these ideas must be implemented into a classroom setting. Aristotle once wrote, "The things we have to learn before we do them, we learn by doing them" (Dictionary of Quotes, 2008). This quotation captures the essence of why we have chosen to contribute this experiential learning activity. It is intended to encourage participants to act, reflect, and then learn from such reflections. The combination of Stakeholder Theory and Triple Bottom Line Accounting to effectively conduct strategic management in an experiential learning exercise provides undergraduates and first year MBA students with the opportunity to grasp these concepts of strategic management and gives them the base with which they can implement it in future business practices.

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APPENDIX A

It is 2020, and the oil industry has been booming in the Gulf of Mexico for the past decade. This industry boom has attracted Slick Oil Company to start drilling operations within the Gulf. However, there has been a growing concern over the possibility of an oil spill, and its potential impacts on its surroundings. As a result, Slick Oil Company has decided to create a strategic response plan. Their goal in creating this is to utilize the stakeholder approach and triple bottom line so that they ensure their response plan is most accurate and proactive in nature. To do this, they must incorporate the needs of all their stakeholders. In this activity you will:

- Identify Slick Oil Company's stakeholders
- Articulate why each stakeholder wants Slick Oil Company to thrive in its industry
- Formulate ways to which Slick Oil Company can meet the needs of each stakeholder
- Recognize all stakeholders claims to generate a proactive response plan

Procedures:

1. As a class, collectively brainstorm all potential stakeholders that would be impacted by an oil spill.
2. Divide the class into groups based on one of the following options:
 - a. Regardless of the number of brainstormed stakeholders, divide the class into 4 to 8 groups.
 - b. Take the class size and divide it by the number of brainstormed stakeholders. This will be the number of students per group so that all stakeholders will be accounted for.
3. In the box provided on your handout, state why it is important that the Slick Oil Company must be concerned about all of their stakeholders. Stress how this is essential to the overall performance of the business.
4. Based on how the class was divided in step 2, randomly assign a stakeholder to each group. (E.g. draw from a hat).
5. On your handout in the space provided, list 3-5 concerns your respective stakeholder might have in the event of a future oil spill.
6. On your handout in space provided, formulate a solution that Slick Oil Company can feasibly accomplish for each stakeholder concern listed above
7. Delegate one member of each group to identify the stakeholder your group represents and to write the 5 solutions to your concerns on the board. (Depending on class size and time allotment you may wish to limit the number of solutions written on the board by each group.)
8. Each group, individually, is now the executive board of Slick Oil Company. The task at hand is to assess and prioritize the stakeholders' solutions to all relevant concerns that have been written on the board. Take 20 minutes to discuss and prioritize the information provided on the board.
9. Within your groups, use what you prioritized in the previous step to create an initial strategic response plan.

Optional

Reflect on how the stakeholder approach was used. Identify the problems that arose. Also reflect on the response plan formulated by your group to take into account the concerns of all of its stakeholders.

Appendix B

Possible Stakeholders

Board of Directors	Media
Executive Officers	Creditors
Stockholders/Principals	Government
Environmentalists	Consumers/Customers
Employees	Retailers
Competitors	Suppliers
Oil Industry	Interest Groups
Community	Unions
EPA	NGO's
Residents	Local (Tourism, Fishing, Recreations)

APPENDIX C

Experiential Learning Activity Handout

It is 2020, and the oil industry has been booming in the Gulf of Mexico for the past decade. This industry boom has attracted Slick Oil Company to start drilling operations within the Gulf. However, there has been a growing concern over the possibility of an oil spill, and its potential impacts on its surroundings. As a result, Slick Oil Company has decided to create a strategic response plan. Their goal in creating this is to utilize the stakeholder approach and triple bottom line so that they ensure their response plan is most accurate and proactive in nature. To do this, they must incorporate the needs of all their stakeholders. In this activity you will:

- Identify Slick Oil Company's stakeholders
- Articulate why each stakeholder wants Slick Oil Company to thrive in its industry
- Formulate ways to which Slick Oil Company can meet the needs of each stakeholder

Recognize all stakeholders claims to generate a proactive response plan

Stakeholder: Any individual or entity, internal or external to the corporation, that can influence or be affected by daily business operations.

** Write a paragraph in the space provided stating why it is important that business' pay attention to all of their individual stakeholders. Keep in mind the definition of a stakeholder and the issues that arise when a crisis occurs.

**List 3-5 concerns your stakeholder would have in the event of an oil spill.

- 1.) _____
- 2.) _____
- 3.) _____
- 4.) _____
- 5.) _____

**Create a solution for each concern listed above that Slick Oil Company could consider.

- 1.) _____
- 2.) _____
- 3.) _____
- 4.) _____
- 5.) _____

