

ORIGINAL ARTICLE

Beyond petroleum or bottom line profits only? An ethical analysis of BP and the Gulf oil spill

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Abstract

On April 20th, 2010, an incident was to take place 49 miles off the Louisiana coast at the Macondo Prospect location in the Gulf of Mexico that would potentially change the future of offshore oil drilling. On that day, 11 men would lose their lives when the 33,000 ton Deepwater Horizon rig, owned by Transocean but leased by BP PLC, exploded. As a result of the explosion, millions of barrels of oil would be released into the Gulf of Mexico, leading to widespread environmental harm and devastation to the shoreline communities. To better examine the underlying reasons for how such an event could take place in 2010, this paper will unfold as follows. First, we provide context to the oil spill by discussing the history of BP, including its transformation into an “environmental” firm in 1995. Second, we explore and analyze the catastrophe through the lens of ethics. Finally, we analyze the disaster through a comparison with the U.S. 2008 financial crisis with a view to identify the root causes of the disaster and the string of ethical failures that have scarred the market economy over the past three or four decades.

KEYWORDS

BP, corporate governance, Deepwater Horizon, ethical analysis, Gulf of Mexico oil spill, leadership

1 | INTRODUCTION

Eleven crew members died, and others were seriously injured, as fire engulfed and ultimately destroyed the rig. And, although the nation would not know the full scope of the disaster for weeks, the first of more than four million barrels of oil began gushing uncontrolled into the Gulf—threatening livelihoods, precious habitats, and even a unique way of life. A treasured American landscape, already battered and degraded from years of mismanagement, faced yet another blow as the oil spread and washed ashore. Five years after Hurricane Katrina, the nation was again transfixed, seemingly helpless, as this new tragedy unfolded in the Gulf. The costs from this one industrial accident are not yet fully counted, but it is already clear that the impacts on the region's natural systems and people were enormous, and that economic losses total tens of billions of dollars. [Report to the President, 2011 January, p. vi)]¹

On April 20th, 2010, an incident was to take place 49 miles off the Louisiana coast at the Macondo Prospect location in the Gulf of Mexico that would potentially change the future of offshore oil drilling. On that day, 11 men would lose their lives when the 33,000 ton Deepwater Horizon rig, owned by Transocean, but leased by BP PLC, exploded. The Deepwater Horizon drilling rig had nearly completed its work of sealing the well in order for a production rig to begin pumping the oil. As a result of the explosion, millions of barrels of oil would be released into the Gulf of Mexico, leading to the widespread environmental harm and devastation to the shoreline communities.² Despite the provision of a \$20 billion compensation fund by BP, legal and moral responsibility for the incident continues to be debated and shared between BP, Transocean (the owner of the rig), Halliburton, (the subcontractor responsible for the well cementing process), as well as U.S. government regulators. While the share price of BP on the London Stock Exchange was 644 pence on April 20th, 2010, it dropped below 300 pence on June 25, 2010, raising concerns among its shareholders (including British pensioners) that the firm might not be able to financially handle the costs of the disaster.³

There has already been significant discussion, commentary, and analysis of the BP Gulf oil spill. For example, a number of books have already been published including: *Fire On The Horizon: The Untold Story of the Gulf Oil Disaster* (Shroder, 2011); *In Too Deep: BP and the Drilling Race That Took it Down* (Reed & Fitzgerald, 2011); *A Sea in Flames: The Deepwater Horizon Oil Blowout* (Safina, 2011); *Black Tide: The Devastating Impact of the Gulf Oil Spill* (Juhasz, 2011); and *In Deep Water: The Anatomy of a Disaster, the Fate of the Gulf, and Ending Our Oil Addiction* (Lehner & Deans, 2010), and *Deepwater Horizon: A Systems Analysis of the Macondo Disaster* (Boebert & Blossom, 2016). Even a Hollywood movie portraying the events was released in 2016 earning over \$60 million at the worldwide box office (IMDb, 2016).

A collection of academic literature has also arisen regarding the BP Gulf oil spill. There are already dozens of articles focusing on the incident, for example, in terms of legal liability (e.g., Viscusi & Zeckhauser, 2011), insurance implications (e.g., Abraham, 2011), the political response following the tragedy (e.g., Aldy, 2011), and the environmental impact of the spill (e.g., Suran, 2011). In terms of business management, one study focuses on the BP reaction to the oil spill with respect to the nature of corporate apologies (O'Connor, 2011). Another study explores the oil spill in terms of risk assessment and the influence of corporate culture on decision making (Jennings, 2010). Others have addressed the BP oil spill in terms of the notion of “ethical corporate marketing” (Balmer, Powell, & Greyser, 2011). But what appears to still be lacking in the academic literature is a discussion that focuses on an ethical analysis of the oil spill, a gap which we seek to address in this article.

To better examine the underlying reasons for how such an event could take place in 2010, this article will unfold as follows. First, we provide context to the oil spill by discussing the history of BP, including its transformation into an “environmental” firm in 1995. Second, we explore and analyze the catastrophe through the lens of ethics. Finally, analyze the disaster through a comparison with the U.S. 2008 financial crisis with a view to identify the root causes of the disaster and the string of ethical failures that have scarred the market economy over the past three or four decades.

The analysis that follows includes references to various news reports of the disaster. However, the primary factual data source utilized for this article is the 306 page (not including any appendices) *Report to the President*, prepared by the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling [i.e., hereinafter referred to as the “President’s Report”]. The report was released on January 11, 2011 following 6 months of inquiry and testimony. The core purpose of this article is not to pass final judgment on issues of responsibility, but rather to better understand the role of ethics in management and the risks that are generated when that role is ignored or short changed.

2 | BP: EVENTS LEADING TO THE 2010 DEEPWATER HORIZON OIL SPILL

One might initially suggest that the events of April 2010 were a one-off situation that could never have been predicted nor anticipated. Part of the reason for such a belief could be based on the general perception that BP, as the fourth largest company in the world based on revenues, was no longer an oil company, but a company which was very much concerned for the environment and safety. As a result, one might assume BP would never accept conditions that would unnecessarily increase the risk of an oil spill. A review of the events prior to 2010 clearly demonstrates however, that this was not in fact the case.

BP was founded in 1908 as the Anglo-Iranian Oil Company, but changed its name in 1954 to British Petroleum. While it originally built its business around crude oil from the Middle East including Iran, in the 1960 and 1970s it was successful in finding oil in the North Sea and in Alaska’s Prudhoe Bay. The company’s fortunes declined however, when the firm was exiled from the Middle East and Nigeria, along with declining oil output from the North Sea and Alaska. With billions invested in unprofitable nonpetroleum ventures, “the company tottered on the brink of bankruptcy” (President’s Report, 2011, p. 45).

In 1995, BP took on a new CEO, John Browne. In 2001 Browne renamed the company BP from British Petroleum and began to use the tagline “Beyond Petroleum.” The firm also adopted at that time a new sunburst logo. On article, by 2003, BP gave every appearance of having evolved into an environmentally friendly, sustainability- oriented firm. At the level of operations, similar conclusions would appear to be warranted. By 2003, BP had invested \$4 billion in alternative energy (e.g., bio-fuels, hydrogen, solar, and wind power), implemented operating management systems to reduce the safety risks, established a Code of Conduct, created a Director of Business Ethics, developed global ethics seminars and e-learning tools, banned political contributions and facilitation payments, and established an ethics committee which reported to its Board.

Unfortunately, there were other indications that ethics was not as high on BP’s agenda as one might hope.⁴ In September 2004, an accident at BP’s Texas City refinery killed two workers and injured a third leading to a fine of \$109,500 for safety violations. In March 2005, a blast at the same Texas City refinery killed 15 workers and injured more than 170. BP was then fined \$21.3 million for safety violations. In July 2005, the BP Thunder Horse offshore platform nearly sank due to Hurricane Dennis in the Gulf of Mexico. Later it was discovered that a valve in the bilge and ballast system had been installed backwards (President’s Report, 2011, p. 50). In March 2006, a rupture in a BP-owned pipeline

in Alaska led to the largest oil spill ever on the North Slope, covering two acres of snow-covered tundra. A union representative stated at the time: “For years we’ve been warning the company about cutting back on maintenance... We know that this could have been prevented.”⁵ In April 2006, the U.S. Labor Department fined BP \$2.4 million for “unsafe conditions” at its refinery near Toledo, Ohio.

In May 2007, BP received new leadership when Tony Hayward took over as chief executive. John Browne resigned following a personal scandal apparently related to his romantic life and alleged misuse of company funds.⁶ In October 2007, BP agreed to pay \$303 million to settle charges by the Commodity Futures Trading Commission that it unlawfully manipulated and attempted to manipulate the price of propane. In March 2008, the Russian government raided the local offices of BP, arrested some employees, and began investigating the company’s operations. In October 2009, the U.S. Occupational Safety and Health Administration fined BP a record \$87.4 million for 709 new safety violations at its Texas City refinery. In March 2010, the Occupational Safety and Health Administration fined BP \$3 million for 62 safety violations at its Ohio refinery.

In April 20, 2010, the Deepwater Horizon exploded in the Gulf of Mexico, killing 11 workers, and causing a gusher of oil that now ranks as the largest off-shore spill in U.S. history. The well was only capped 3 months later on July 15, 2010, after approximately five million barrels of oil were discharged (President’s Report, 2011, p. 167). While one might think that this incident was the last for BP, in May 2010, merely 1 month later, a power failure caused 5,000 barrels of oil to leak from the Trans-Alaska Pipeline System, principally managed by BP.

3 | THE DEEPWATER HORIZON TRAGEDY

As damage continued to occur from the Gulf oil spill, investigations into the cause of the explosion as well as lawsuits against various parties including BP began to be launched. A preliminary report from the National Academy of Engineering, for example, cited “inadequate training and supervision of key personnel” and “a lack of focus on safety” as key factors in the drill rig explosion.⁷ As reported in the media, ultimately the gulf spill was due to BP’s “compulsion to get this rig completed in that April 19–20 timetable.” The rush to complete the well project appears to have resulted in the following: “[Halliburton] cement[ing] the well with a mixture [BP] knew to be flawed; BP’s apparent failure to center the well properly; BP’s decision to use seawater instead of heavy drilling mud to fill the well, leaving it vulnerable to an upsurge in gas; BP’s apparent failure to use enough plugs to seal the well; and the failure by BP’s and Transocean to pay close attention to pressure tests showing the well to be unstable.”⁸ For example, evidence suggests that BP ignored the key test results from partner Halliburton showing that the cement mixture used to seal the bottom of the well was unstable and committed a host of further safety breaches and shortcuts contributing to the Deep-water tragedy.⁹

In its report, the White House Oil Spill National Commission provided its judgment on who was responsible for the spill: “The Deepwater Horizon blowout and oil spill in the Gulf of Mexico was an avoidable accident caused by a series of failures and blunders by the companies involved in drilling the well [i.e., BP, Transocean, and Halliburton] and the government regulators assigned to police them”¹⁰ The President’s Report states:

The well blew out because a number of separate risk factors, oversights, and outright mistakes combined to overwhelm the safeguards meant to prevent just such an event from happening. But most of the mistakes and oversights at Macondo can be traced back to a single overarching failure—a failure of management. Better management by BP,

Halliburton, and Transocean would almost certainly have prevented the blowout by improving the ability of individuals involved to identify the risks they faced, and to properly evaluate, communicate, and address them. A blowout in deepwater was not a statistical inevitability. (President's Report, 2011, p. 90)

In addition to poor BP management practices at the rig site, BP's CEO Tony Hayward made statements and engaged in activity following the spill that suggested he was disconnected to the significance of the tragedy. On May 30th, 2010, the CEO stated: "I'd like my life back." He apologized on Facebook the next day: "I made a hurtful and thoughtless comment...when I said that 'I wanted my life back.' When I read that recently, I was appalled. I apologize, especially to the families of the 11 men who lost their lives in this tragic accident."¹¹ Yet, on June 19, 2010, Tony Hayward decided to go sailing on his yacht as the oil spill recovery faltered. This took place merely 2 days after Mr. Hayward angered lawmakers on Washington's Capitol Hill with his refusal to provide details during testimony about the worst offshore oil spill in United States history. In his defense, a BP spokesman said *it was the first break Hayward had had since the Deepwater Horizon oil rig exploded on April 20, killing the 11 workers and setting off the leak from the Macondo well.*¹²

4 | THE STRUCTURE OF THE PROPOSED ETHICAL ANALYSIS

The analysis that follows builds on the dominant moral frameworks, principles, values, and concepts appealed to and utilized in evaluating conduct in current business ethics literature.¹³ We propose first to evaluate BP's actions prior to and during the oil spill, by reference to: trustworthiness; responsibility; caring; citizenship; Kantian deontological principles; and the concept of moral rights. This will be followed by an exploration of possible ethically grounded justifications of BP's actions, justifications of a kind that are sometimes used to rationalize the actions and decisions of senior business executives.¹⁴ These rationalization frameworks include: ethical egoism; relativism; and utilitarianism.

5 | AN INITIAL ETHICAL CRITIQUE

Our first framework is that of *trustworthiness* (i.e., honesty, promise-keeping, integrity). Tested against a standard of trustworthiness, the key issue would appear to be that of *integrity*. Were BP's actions consistent with its stated values and principles? The answer appears to be clearly no. BP's own "Values Statement" includes the following: "We are committed to the safety and development of our people and the communities and societies in which we operate. We aim for no accidents, no harm to people and no damage to the environment."¹⁵ Yet based on the number of disastrous or potentially disastrous workplace incidents during the decade prior to the oil spill, the Commission states that BP "...has been unable to meet its professed commitment to safety" (Presidential Report, 2011, p. 218).

The second framework is *responsibility*, a standard that calls for accountability for fixing the problem so that it won't happen again. A consistent application of this framework militates against attempting to shift blame to others. In addition, there is a willingness to apologize and compensate those who have been harmed directly as a result of one's decisions or actions or inactions. BP's first response to the oil spill was to attempt to shift blame to Transocean and Halliburton. Thus, in early May 2010, then BP CEO, Tony Hayward, said: "The rig that exploded on April 20 and then sank was run by another company, Transocean. That rig was run by their people, their processes." Later, Hayward was to

assume at least some responsibility for the cleanup: “We are responsible, *not for the accident*, but we are responsible for the oil and for dealing with it and cleaning the situation up”¹⁶ [emphasis added]. Yet, while engaged in the cleanup effort, coastal residents were allegedly being asked by BP to sign waivers limiting BP’s potential liability to \$5,000.¹⁷

A lack of responsibility was also implied by BP’s apparent failure to prepare for an oil spill emergency in preparing its “Oil Spill Response Plan” for the Gulf of Mexico. For instance, “...the BP plan identified three different worst-case scenarios that ranged from 28,033–250,000 barrels of oil discharge and used identical language to ‘analyze’ the shoreline impacts under each scenario.” The Plan also described animals, including sea lions, sea otters, and walrus that were not indigenous to the Gulf of Mexico (President’s Report, 2011, p. 84). A link to the plan that purported to go to the Marine Spill Response Corporation web site instead apparently went to a Japanese entertainment web site (President’s Report, 2011, p. 133). In fact, as events demonstrated, the only options available to BP was to try to drill a relief well, an option that was both lengthy and challenging. As the President’s Report notes, “BP had no available, tested technique to stop a deepwater blowout...” (p. 135).

A value that is frequently used to assess the moral quality of behavior is that of *caring*. Evaluated from within the context of a caring framework, firms are thought to have an obligation to avoid unnecessary harm (i.e., non-maleficence). Of course, business activity by its nature can cause harm to others. What this standard requires is that unnecessary harm be avoided and that any harm caused be justifiable. Again, set against this standard, available evidence suggests that BP’s actions do not measure up. In spite of operating revenues of nearly \$240 billion,¹⁸ BP chose not to install safety equipment commonly used by other companies, for example, a remote control shut off switch (called an “acoustic switch”) legally required in both Norway and Brazil and used by other oil companies including Royal Dutch Shell and France’s Total SA. The cost of this particular device would have been \$500,000.¹⁹

In retrospect, it is clear that instead of taking reasonable steps to avoid potential harm, BP appears to have actually suppressed safety complaints: “Rig survivors said it was always understood that you could get fired if you raised safety concerns that might delay drilling. Some co-workers had been fired for speaking out.”²⁰ According to a Transocean survey one month before the spill, approximately 50% of the workforce feared reprisals for reporting unsafe situations (Presidential Report, 2011, p. 218).²¹ In addition, the massive investments made in oil development and production by BP and the entire oil industry did not take place “...with comparable investments in drilling safety and oil-spill containment technology...in case of an accident” (President’s Report, 2011, p. 56). Thus reasonable steps to avoid unnecessary harm were not taken by BP, demonstrating a lack of caring towards others.

The core ethical value of *citizenship* includes abiding by the law in the jurisdictions in which a firm is operating, taking reasonable steps to protect the environment, and assisting the community when assistance is needed, for example, in the face of emergencies. The fines accumulated by BP in the years prior to the oil spill do not suggest a strong citizenship stance. This conclusion is reinforced by on-going resistance to government attempts to set stricter legal regulatory for the industry (President’s Report, 2011, p. 241). In terms of protecting the natural environment, based on the President’s Report, it appears clear that BP did not take appropriate and reasonable steps before, during, and after the explosion.²² In terms of protecting citizens, most communities along the Gulf coast appeared to distrust BP during the cleanup process (Presidential Report, 2011, p. 144).

Kantian moral theory has been widely adopted as providing a framework for assessing moral conduct. Kantian frameworks focus on the moral duties of moral agents rather than the consequences of their actions. Set against this framework, did BP’s conduct suggest awareness or sensitivity to their moral responsibilities? The Golden Rule is a familiar and conventional expression of Kant’s moral theory. We can therefore ask whether, set against this standard, BP’s actions measured up? Again the evidence available is not encouraging. It would appear that BP was prepared to “use” its own employees

merely as means to accomplishing BP self-centered objectives, namely the maximization of profits, rather than treating them, as Kant would have it, as ends and not as means only.

Moral rights are being increasingly referenced in identifying the standards that business firms ought to respect in their operations.²³ BP's actions leading up to and following the explosion suggests a continuing disregard for the rights of its workers to a safe work environment, and the right of impacted communities to a safe and clean natural environment. More specifically, the rights to *life*, *health*, and *safety* of the workers were infringed upon by putting them in danger through an "insufficient consideration of risk" and "lack of operating discipline."²⁴ In fact, according to the Commission, BP's safety lapses had become chronic (Presidential Report, p. 218).

The need to ensure safe workplace standards was clearly apparent based on the previous number of injuries and deaths suffered in the Gulf of Mexico alone: "Drilling for oil had always been hard, dirty, dangerous work, combining heavy machinery and volatile hydrocarbons extracted at high pressures. Since 2001, the Gulf of Mexico workforce—35,000 people, working on 90 big drilling rigs and 3,500 production platforms—had suffered 1,550 injuries, 60 deaths, and 948 fires and explosions." (President's Report, 2011, p. 3). While the shareholders' property rights would have potentially encouraged BP's risk-taking behavior, the safety rights of employees should clearly have been a much higher priority for the company.²⁵

6 | RATIONALIZING BP'S CONDUCT

While each of the above moral frameworks and values when applied to BP's actions point to the conclusion that BP failed to live up to its ethical obligations, there are competing frameworks that might be thought to lead to conflicting conclusions. Three frameworks and theories might be thought to have this character: relativism, ethical egoism, and utilitarianism.

Ethical relativism might be thought to offer a framework that could be used to justify BP's conduct. Might it be argued, for example, that BP's conduct was consistent with prevailing industry norms or standards? Evidence already vetted above indicates that this justification, however tenuous, is not available in this case. Evidence suggests that BP failed to implement safeguards that were standard in the operations of competing oil companies.

Ethical egoism is a perspective on ethics that argues that acting to further one's own interests is ethically appropriate and perhaps even ethically required. Might BP's conduct leading to and following the explosion be justified from the perspective of ethical egoism? To explain the company's behavior and the disaster itself this way might seem initially to be quite plausible. As it turns out, BP was losing \$1.5 million per day because it was behind schedule at the Macondo site. If the company defined its purpose and therefore its self-interest around maximizing profits, the risks taken around safety on the oil rig might be argued to be justified in the pursuit of that objective. This attempt at justification would not necessarily imply intentionally putting the lives of workers at risk to achieve profitability goals. Indeed, Fred Bartlit, lead investigator for the Presidential Panel reports that he had "...not seen a single instance where a human being made a conscious decision to favor dollars over safety."²⁶ It is possible, then, as suggested by the commission of inquiry, that "(a)bsent major crises, and given the remarkable financial return available from deepwater reserves, the business culture succumbed to a false sense of security" (Report to the President, 2011, p. ix). As just one example, a three man team from a BP sub-contractor was scheduled to perform a series of tests on April 20, 2010 to examine the well's new bottom cement seal, but was sent home "...thus saving time and the \$128,000 fee" (President's Report, 2011, p. 4).

It is clear, however, that even from the perspective of ethical egoism, the behavior of BP in and around the disaster cannot be rationalized or justified. Ethical egoism does not excuse incompetence,

carelessness or complacency. The risks taken by the company around its Gulf of Mexico project were clearly unjustifiable measured by the damage and harm to which they exposed the company. Seen from this perspective they were neither rationally or morally justifiable.

Finally, it might be argued that BP's conduct should be understood and evaluated from within the context of a utilitarian framework focused on the greatest good of the greatest number. By focusing on the greatest net good for all those affected, one can argue that it is worth taking risks if the probability of an oil spill is low, or the harm to be caused can nonetheless be seen to be justifiable by reference to the benefits accruing to the beneficiaries. In this case, the well had a "blowout preventer" in place, which was designed to be the last critical line of defense in maintaining the control over a well, and is described in the President's report as "more reliable than the regulations recognized..." (President's Report, 2011, p. 73). The blowout preventer is designed to close what is known as a "blind shear ram," which severs the drill pipe, seals the well, and disconnects the rig from the blowout preventer. The blowout preventer also comes with a "Dead Man" switch which would normally automatically close the valve on the seabed if power from or communication with the rig occurred.²⁷ Unfortunately, neither the blowout preventer nor the Dead Man switch worked, possibly due to poor maintenance, low battery charges, or defective valves (President's Report, 2011, p. 115).

One might try to justify the conduct of the company by balancing the risks undertaken against the benefits expected. Access to the oil for which BP was drilling could be argued to be justified by virtue of its value to its eventual consumers, security of supply for the United States, employment generated, economic activity stimulated, taxes generated, and economic wealth created (President's Report, 2011, p. 60).

As it turns out, however, if the decisions were guided by a risk/benefit analysis that justified the risk, and there is no evidence that they were, the nature of the potential cost must have been severely underestimated. The lives of the workers on the rig itself were sacrificed. A fishery was brought to a halt with radiating and very damaging economic consequences for the whole region. A tourism industry was decimated. Shareholder wealth was destroyed. Environmental impacts were horrendous. The Presidential Commission describes it this way:

The damage from the spill and the impact on the people of the Gulf has guided [the Commission's] work from the very beginning. Our first action as a Commission was to visit the Gulf region, to learn directly from those most affected. We heard deeply moving accounts from oystermen witnessing multi-generation family businesses slipping away, fishermen, and tourism proprietors bearing the brunt of an ill-founded stigma affecting everything related to the Gulf, and oil-rig workers dealing with mounting bills and threatened home foreclosures, their means of support temporarily derailed by a blanket drilling moratorium, shutting down all deep-water drilling rigs, including those not implicated in the BP spill. (President's Report, 2011, p. x)

Rig explosions and oil spills also have an effect on both physical and mental human health. Beyond the trauma to the survivors and families of those killed, a survey of approximately 2,600 residents revealed that medical diagnoses of depressive illness had increased by 25%. Domestic violence also increased, with special concerns over minority fishing communities and Indian tribes (President's Report, 2011, p. 193). While an exact cost-benefit determination is extremely difficult to make, it is clear that the risks associated with the kind of drilling activity required to recover the oil wealth in question could only be justified on utilitarian grounds assuming state of the art precautionary measure, something it is clear that did not happen. It is as a result very difficult to see, therefore, how a utilitarian account could justify the conduct of the BP in this case.

6.1 | Summary analysis

It follows from this analysis, that based on the facts uncovered by the President's Commission measured against the full range of existing and commonly used ethical frameworks, theoretical approaches, values, and principles, BP's conduct leading up to and following the disaster, failed to meet even the least demanding ethical standards including the standards it had set for itself. We canvas alternative explanations of that failure in what follows. We will conclude by providing preliminary reasons for the view that the key factor was a commitment to profit maximization.

7 | DISCUSSION

Although today, many years following the event, the BP oil spill disaster has faded from the headlines, the sheer magnitude of the disaster with its devastating social, environment and economic impacts begs for analysis and explanation. What our analysis suggests is that ethical failure lies at the heart of the disaster and should therefore reside at the core of analysis and explanation. In some respects, it could be argued that this is what has happened. Neither the company nor its leadership has escaped blame. BP has accepted responsibility and continues to pay a heavy price for its failures in properly managing both the drilling operation and its response to the explosion that resulted in substantial loss of life and the environmental disaster that followed.

In what follows, we proposed to outline the frames that could be and have been used to explain, assign responsibility and avoid similar disasters in the future both on the part of BP, the wider industry and government. We begin by running a comparison of the BP disaster with the financial crisis. Both events were followed by inquiries that undertook to identify causes and assign responsibilities. Both crises had devastating impacts on those directly involved, but also on huge numbers of innocent bystanders. In both cases, ethical failure has been thought to lie at the heart of explanations of the events taking place. While, as we shall see, a variety of frames have a role in understanding what happened and why, we shall argue that there is an under riding systemic, structural issue that it would seem is only beginning to get the attention it most properly deserves.

Although involving a completely distinct industry, many of the potential lessons learned from the 2008 financial crisis could have been applied to potentially prevent the Gulf oil spill. A review of the following statements in Table 1 below from both the financial crisis Commission (2010) along with the BP Commission (2011) demonstrates striking similarities between them.

What this brief comparison suggests is that strikingly similar patterns and conclusions emerged from the two inquiries created in response to the financial and BP crises.

8 | THE ISSUE OF LEADERSHIP

Most often, events generating damaging outcomes are followed by a search for the culprits to whom blame and responsibility can be assigned. Often they are not difficult to identify. This turned out to be true both in the case of the financial crisis and the BP oil disaster. The CEO of BP, John Hayward, as we have seen, exposed himself to criticism, no doubt much of which was warranted, by his responses to events as they unfolded. The financial crisis generated remarkably similar responses. In both cases, it was clear that key leaders had allowed and perhaps even encouraged their organizations to take on huge poorly understood risks. In both cases, the pursuit of short-term personal and corporate financial

TABLE 1 Comparison between the financial crisis Commission and the BP Commission

Similar causes	Financial Crisis Inquiry Commission (2010)	National Commission on the BP Deepwater Horizon Oil Spill (2011)
Avoidable	"We conclude this financial crisis was <i>avoidable</i> ." (p. xvii)	"The explosive loss of the Macondo well could have been <i>prevented</i> ." (p. vii)
Permissiveness/ Complacency	"...there was <i>pervasive permissiveness</i> ; little meaningful action was taken to quell the threats in a timely manner." (p. xvii)	"...the business culture succumbed to a false sense of security. The...disaster exhibits the costs of a <i>culture of complacency</i> ." (p. ix)
Warnings	"...the public stewards of our financial system ignored warnings...there were <i>warning signs</i> ." (p. xvii)	"There are recurring themes of missed <i>warning signals</i> ..." (p. ix)
Regulatory supervision	"...widespread failures in financial <i>regulation and supervision</i> ..." (p. xviii)	"The Commission has documented the weaknesses and the inadequacies of federal <i>regulation and oversight</i> ..." (p. ix)
Lobbying	"...the financial sector expended \$2.7 billion in reported federal <i>lobbying</i> expenses...deprived the [nation] of the necessary strength and independence of the oversight necessary to safeguard financial stability." (p. xviii)	"API's [American Petroleum Institute] longstanding role as an industry <i>lobbyist</i> and policy advocate—with an established record of opposing reform and modernization of safety regulations—renders it inappropriate to serve a self-policing function." (p. 241)
Failure of risk management	"We conclude dramatic <i>failures</i> ...of <i>risk management</i> ...were a key cause of this crisis." (p. xviii)	"The immediate causes...reveal such systematic <i>failures of risk management</i> that they place in doubt the safety culture of the entire industry." (p. vii)
Excessive risk	"Too many of these institutions acted recklessly, taking on too much <i>risk</i> ..." (p. xviii)	"...the cumulative <i>risk</i> that resulted from these decisions and actions was both unreasonably large and avoidable..." (p. 115)
Preparedness	"We conclude the government was ill <i>prepared</i> for the crisis..." (p. xxi)	"Deepwater energy exploration ...involve risks for which neither industry nor government has been adequately <i>prepared</i> ." (p. vii)
Accountability	"We conclude there was a systematic breakdown in <i>accountability</i> ..." (p. xxii)	"Lax enforcement contributed to the lack of <i>accountability</i> ." (p. 28)
Ethics	"We conclude there was a systematic breakdown in... <i>ethics</i> ." (p. xxii)	"...more than a dozen [government regulator] employees...received a wide array of gifts, from companies with whom they were conducting business." (p. 77)
Mistakes	"We clearly believe the crisis was a result of human <i>mistakes</i> , misjudgments, and misdeeds..." (p. xxiii)	"The immediate causes...can be traced to a series of identifiable <i>mistakes</i> made by BP, Halliburton, and Transocean..." (p. vii)
Tone at the top	" <i>Tone at the top</i> does matter..." (p. xxiii)	"The critical common element is an unwavering commitment to safety <i>at the top of an organization</i> : the CEO and board of directors must create the culture and establish the conditions under which everyone in the company shares responsibility for maintaining a relentless focus on preventing accidents." (p. 218)

gains, what is often referred to as the greed factor, would appear to have outweighed responsibility for ensuring the organizations for which they were responsible maintained a proper focus on long-term organizational objectives and financial success. In both cases, key leaders paid a high personal price for their failures of leadership. Unfortunately, there are too many other examples of companies that failed to establish an ethical "tone at the top" due to personal greed (Gini, 2004). For example, US firms (and their former CEOs) such as WorldCom (Bernie Ebbers), Enron (Jeffrey Skilling), Tyco International (Dennis Kozlowski), and Adelphia (John Rigas), Canadian firms such as Hollinger (Conrad Black) and Livent (Garth Drabinsky), and Italian firm Parmalat (Calisto Tanzi) appear to have all been lacking ethical leadership.

If leadership is the issue, then the proper response is to focus on training ethical leaders. Events over the past several decades have generated a significant industry in this regard. However, as the discussion that follows points out, to see the solution to avoiding future events of a similarly distressing nature, focusing primarily on the search for ethical leadership may promise more than it can deliver.²⁸ Leaders are both constrained and deeply influenced by the cultures, and the policy environments in which they perform their responsibilities. Looking to these environments is a second obvious direction in which to turn in finding explanations and shaping solutions.²⁹

9 | THE ISSUE OF CORPORATE GOVERNANCE

If failed leadership is at issue in this case, then corporate governance must be at issue as well. One of the most important responsibilities of a board of directors is the selection of the Chief Executive Officer (CEO). As our study and the President's Report indicate, there were many indications leading up to the Gulf spill pointing to serious leadership problems. Even more striking is the fact that BP had policies in place that should have militated against events as they developed. The BP Board must have endorsed the company's broadened focus from oil and petroleum products to energy, particularly renewable energy. The language projecting BP's public image was the language of sustainable development. So there were in place both policies and significant warning signs sufficient to alert a Board to significant pending problems.

Contemporary corporate boards have many tools available to ensure the organizations for which they are responsible respect high ethical standards. For example, codes of ethics, hot lines designed to allow employees to report questionable practices without fear of retaliation, and ethics officers with direct access to the board or board committees can all assist in this regard. Strikingly, BP has changed its top leadership and put these various ethical safeguards in place. The fact that it took a disaster of these proportions to do so is surely an indictment of board leadership.

A second striking indictment of board leadership is the loss suffered by shareholders as a result of the disaster. The dominant corporate model in play in the contemporary corporation, particularly Anglo/American companies, is the profit maximization model. We will have more to say about this model below. Suffice it to say for present purposes, however, that as a corporation committed to profit maximization, BP's operations in the Gulf could only be considered an abject failure. Here, the parallel with the financial meltdown is striking. Failure of board leadership would seem to have been a fundamental feature of both the BP disaster and financial crisis of 2008. Inevitably, board failures on a grand scale raise questions about government or regulatory failure. If boards are not doing their jobs, then government has an obligation in the public interest to step in.

10 | THE ISSUE OF REGULATION AND GOVERNMENT LEADERSHIP

When encountered on a broad scale, the failure of corporations and corporate boards to protect both the public and shareholders leads to concern about systemic failures. Again, the comparison of the BP disaster and financial meltdown is instructive. In both cases, it has been widely concluded that a key to these events was regulatory failure of two varieties. First there was a failure to ensure regulations in place were respected. The President's Commission reports (p. 77) that the U.S. government, through its Minerals Management Service (MMS) agency, failed to live up to its ethical obligations. In fact, several of the MMS offices and employees have been implicated in unethical and criminal conduct involving gifts to government employees by the oil companies (President's Report, 2011, p. 77).

But there would seem also to have been a failure to set adequate regulatory standards for the industry. Here too, parallels with the financial industry leading up to the financial crisis are striking. The diagnosis of regulatory failure took centre stage in responses to the financial crisis of 2008. The same has proven true also of the BP disaster. There is a long history of this kind of response particularly in the United States. The *Sarbanes-Oxley Act 2002* is just one striking example.³⁰ Clearly there were regulatory lapses and regulatory failures in this case. Again, it is hard to deny this conclusion. And once again it is clear that the oil industry in the United States played a seminal role in blocking regulatory reform. For example, the American Petroleum Institute (API), as the industry's principal lobbyist and policy advocate, was deemed by the Presidential Commission (p. 225) to be a factor in the tragedy by “regularly resist[ing] agency rulemakings that government regulators believe[d] would make those operations safer” and by favoring “rulemaking that promote[d] industry autonomy from government oversight” (p. 225). The API's proposed safety standards:

...increasingly failed to reflect “best industry practices” and have instead expressed the “lowest common denominator”—in other words, a standard that almost all operators could readily achieve. Because, moreover, the Interior Department has in turn relied on API in developing its own regulatory safety standards, API's shortfalls have undermined the entire federal regulatory system...the inadequacies of the resulting federal standards are evident in the decisions that led to the Macondo well blowout. (Presidential Commission, 2011, p. 225)

We can say then with some confidence that all the typical targets for blame were present in both the financial meltdown and the BP oil spill. But in identifying these traditional targets of blame, is it possible that commentators, analysts, and legislators are being diverted by symptoms and not the underlying structural causes?

11 | FINDING THE REAL CULPRIT

One of the underlying themes of the President's Report is the drive for profit maximization. It would have been surprising if this theme had not emerged from the work of the Commission assigned responsibility for identifying both causes and solutions in response to the disaster. Neither is it surprising that this was a central theme emerging from the various inquiries into the financial meltdown of 2008. Roger Martin, after cataloguing the recent history of corporate scandals, points to the impact that pursuit of profit maximization has led to with respect to compensation patterns put in place by corporate boards, particularly in the United States in the last four decades. Deeply influenced by

agency theory (Jensen & Meckling, 1976), American corporate boards have used stock options to align senior management interests with what is assumed to be the shareholder goal of profit maximization (Martin, 2011, p. 10). Martin illustrates the results in what follows:

In 2009...the highest-paid CEO in America was Larry Ellison of Oracle, and estimates suggest that 97% of his paycheck came from realized gains on stock options. Ray Irani, CEO of Occidental Petroleum, earned \$31 million in 2009, including \$1.7 million in base salary, a bonus of \$1.2 million, and restricted stock awards of just under \$25 million. (2011, p. 14)

These levels of compensation are not aberrations. For, as Martin (2011, p. 14) goes on to point out:

It has become an accepted premise of good governance that, in order to properly align their incentives with those of shareholders, executives, and board members much receive a substantial portion of their pay in the form of stock-based compensation. The crashes of 2001–2001 and 2008–2009 did nothing to diminish this premise; in fact they strengthened it.

Regulators and governments have responded to this trend by seeking to set conditions on the use of stock options as forms of compensation. However, as Martin points out, in doing so they have been distracted by a symptom of the problem and ignored the problem itself.

What then is the problem? Martin (2011) argues that the problem lies with the premise that the purpose and objective of business is to maximize profits. The very dominant role that this premise now plays in the business world, Martin argues, can be traced back to the 1976 article, referred to earlier, by Jensen and Meckling. It might alternatively be traced to the impact of the Chicago school of economics on management education, captured most graphically by Milton Friedman with his now famous statement that the purpose of business is to make as much money as possible for shareholders while obeying the law and respecting local ethical custom. Whatever its origins, however, profit maximization as the purpose of business has assumed for business, particularly in North America, the status of a dogma.

The dogma has not gone unchallenged, however. Writing in 1974, Peter Drucker, proposes that the suggestion that the purpose of business is to make a profit is “not only false, it is irrelevant” (Drucker, 2001). Drucker points out:

...profitability is not the purpose of, but a limiting factor on business enterprise and business activity. Profit is not the explanation, cause or rationale of business behavior and business decisions, but rather the test of their validity. (Drucker, 2001, p. 18)

Drucker goes on to assert that “the concept (of profit maximization) is worse than irrelevant: it does harm” (p. 19). But if profit maximization is not the purpose of business, then what is? Drucker proposes that the purpose of business “is to create a customer” (Drucker, 2001, p. 20). He goes on to say:

To know what a business is, we have to start with its purpose. Its purpose must lie outside of the business itself. In fact, it must lie in society since business enterprise is an organ of society. There is only one valued definition of business purpose: to create a customer. (Drucker, 2001, p. 20)

If the purpose of business is “to create a customer”, then what business must do is focus on “the needs, the realities, the values of the customers” (Drucker, 2001, p. 20) and not the demands of its shareholders. It is hard to see how either the financial crisis or the BP disaster could have happened had the focus of the relevant corporate boards and their senior management been on the needs, realities, and values of their customers.

Interestingly, a similar story is implied, though not explicitly articulated, by Michael Porter and Mark Kramer in their *Harvard Business Review* article entitled “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility” (2006). What emerges from that study is the view that the goal of strategic management is and should be acquiring competitive advantage. Competitive advantage they argue requires building societal interests in strategic management as a core element. But it also involves focusing on the needs and interests of potential customers and clients. Thus Porter and Kramer are implicitly endorsing Drucker's view that marketing and innovation lie at the core of definitions of the purpose of business and not maximizing the value of the shares of shareholders.

Strikingly, this view has acquired the support of a surprisingly business voice, specifically that of former General Electric CEO Jack Welch, a long-standing poster boy of the shareholder value advocates. Welch is on record as telling the *Financial Times* that maximizing shareholder value as a strategy “is a dumb idea” and that “your main constituencies are your employees, your customers and your products” (Guerrera, 2009). Once again, Drucker's view that the purpose of business is to meet the needs and demands of customers and clients rings true.

Finally and more recently, Martin (2011) offered an analysis that points clearly to the proposition first voiced by Peter Drucker, that to see profit maximization as the purpose of business is an invitation for ethical disaster. The cover flap on Martin's recent book *Fixing the Game* sets the context graphically: “[S]ince the turn of the twenty-first century”, it points out, “we've seen two massive value-destroying market meltdowns, and a string of ethics breaches, including accounting scandals, options-back-dating schemes, and the subprime mortgage debacle”. Martin ties these events to the profit maximization dogma that has come to shape our understanding of the role and function of corporate governance. He argues that the effect of this view of the purpose of business when actuated in corporate boardrooms around CEO compensation policies, for example, is to shift attention from the real market to the expectation market with the disastrous results that we have seen accumulate since the mid 1980s.

12 | ETHICS AND PROFIT MAXIMIZATION

None of the critics of profit maximization put ethical analysis at the core of their critiques. However, ethics does play a central role as an indicator of the dysfunctional character of the model. We conclude with an overview of why the impact of the model when applied in real world business environments undermines ethical conduct and ethical leadership.

The profit maximization model of the purpose of the firm assigns to ethics two roles. First, the model assumes that the primary ethical responsibility of corporate boards and senior managers is to maximize profits. It is this assumption that makes profit maximization an ethical obligation and justifies making profit maximization the purpose of business or the firm. There have been a plethora of ethical justifications for assigning profit maximization this role.³¹ But the core effect of all justifications is to make the pursuit of profit maximization the dominant ethical obligation of corporations. This is not to say that profit maximization is the only ethical obligation of the firm's senior managers

and directors. Legal constraints are normally acknowledged as having ethical force as is playing within the rules of the game. The outcome, however, is that the ethical focus of the firm is very focused.

What then happens to the many other ethical values normally in play in business settings, that is, the ethical values, for example, canvassed in the first section of this article including trustworthiness, responsibility, caring, citizenship, Kantian deontological principles, and the concept of moral rights? The short answer is that on this model, this wider range of ethical values is instrumentalized. What this means in essence is that they will play a role in strategic management only if they can be shown to contribute to the pursuit of profit maximization. However, the converse is also true. If they cannot be shown to contribute to profit maximization or are obstacles to achieving that goal, then ignoring or overriding them is ethically justified.

The up-shot is that ethics and ethical leadership as conventionally understood has little or no moral leverage for senior managers focused on accomplishing the goal set by this dominant view of the purpose of business. Seen from this perspective, the claim that the profit maximization model is not simply wrong headed, but actually seriously destructive takes on a new meaning. It also helps to explain why to focus on ethical leadership, or corporate governance, or strengthened regulatory structures is bound to fail. Interestingly, as Roger Martin points out, the empirical evidence pointing out the model's dysfunctional character is quite clear.³² By instrumentalizing ethics as it does, the model when put into practice “generates inauthenticity in its participants filling their world with encouragements to suspend moral judgment” (Martin, 2011, pp. 33–34).

13 | CONCLUSION

In terms of events since the oil spill, the United States Department of Justice and BP settled federal criminal charges in 2012 with BP pleading guilty to 11 counts of manslaughter. As of 2018, the total cost of charges, penalties, and cleanup costs had cost BP more than \$65 billion (Bousso, 2018). Another study however determined the ultimate cost to BP of \$145 billion in the United States (Lee, Garza-Gomez, & Lee, 2018). One significant portion of this amount was due to a 2014 U.S. District Court ruling that BP was primarily responsible for the oil spill and as a result of its reckless conduct and gross negligence, and was required to pay a U.S. record setting corporate settlement of \$18.7 billion in fines (Wade & Hays, 2015).

Based on the analysis above, but also that of the President's Commission and other commentators, the events leading to and following from the oil rig explosion and subsequent human and environment disaster were evidence of seriously amoral behavior on the part of BP and its senior management. While we have focused on BP, clearly the rig owner, Transocean, and the other subcontractors such as Halliburton, also played a role. Even the U.S. government, through its MMS agency, failed to live up to its ethical obligations. Ultimately, revenue generation and profit maximization for both the oil industry and the U.S. regulators appears to have prevented appropriate measures to be taken which could have prevented the catastrophe. What this analysis suggests is that while stricter government regulation and enforcement, combined with sufficient and sincere self-regulation on the part of both individual companies and industries themselves, can be expected have some impact, the moral and economic slide so ably described in Martin's *Fixing the Game* cannot be stopped until the strategic model on which so much corporate behavior is now based is fundamentally reformed. Until that happens, the crises that have become so common over the past several decades can be expected to continue.

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ENDNOTES

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How to cite this article: Schwartz MS. Beyond petroleum or bottom line profits only? An ethical analysis of BP and the Gulf oil spill. *Bus Soc Rev*. 2020;125:71–88. <https://doi.org/10.1111/basr.12194>