

**ACTIONS SPEAK LOUDER THAN WORDS: PART II**

June 2nd will go down in history as the first time since going into business on my own that I contacted my clients and advised them to sell a holding at a loss. I knew that the day would inevitably come but it still came as a disappointment because it is almost as if I had seen this particular scenario in advance.

The company I am talking about is BP and the reason why I say that I almost saw it coming is because I wrote about safety at BP in Opinion Piece 30 back in March 2008: “Actions speak louder than words”.

I wrote that Opinion Piece because I had just watched the BP 2008 strategy day and I was concerned about the way the CEO (Tony Hayward) and the head of exploration (Andy Ingles) spoke about safety. Scarily I wrote the following:

I do not want to hear about a problem in two years time that should have been avoided due to better equipment or better procedures because I want to believe that every line manager in BP automatically knows that safety is a given and expenditure will be authorised.

Two years and one month after I wrote the above we had the explosion in the Gulf of Mexico that killed eleven workers.

I did not immediately sell BP because I felt I needed to gather as much information as possible.

At first the estimate of the size of the leak was quite small and there was a hope that the well could be quickly plugged. There was also confusion as to who was responsible. Was it the operator BP or was it the main contractor or the sub contractor or the equipment supplier? Maybe BP was not at fault.

It was only on June 1st after the attempt to stop the leak by clogging the well had just failed that I began to weigh up the reality that this problem was massive.

Commentators were saying that the earliest the leak could be stopped was likely to be August. There were also reports that safety procedures had not been followed and there were also reports that the amount of oil leaking out was substantially larger than first reported.

I faced that horrible situation of not knowing what to think. How long would it last? How much oil would leak out? What would it cost to clean up? What punishment would be applied? Were the rumours of bad practices accurate? Would the hurricane season disrupt the attempts to plug the well?

As I have mentioned before, in a situation like this I try to ask myself “what would Warren Buffett do”. In the past he has made a fortune buying shares in Coca Cola and American Express at times when they had major problems. My guess was that even with the fall in the share price from over £6 to over £4 (see chart below) Warren would not buy because there was still too much uncertainty about the size of the problem. (I will only know the answer to that question when the next Berkshire

Hathaway portfolio changes are released. It will be embarrassing if he has been buying but I think I'm right.)



Since I took the decision to sell in early June the American authorities appear to have gathered evidence showing that important equipment was below standard and safety procedures were not adhered to (Somehow that message about safety being the number one priority at BP seems to have been lost.)

Here is a piece from the FT on June 29th:

The use at Macondo of a so-called “long string” – a cheaper way of lining a well, but one that gives less protection against gas leaks than using multiple layers, including liners and casings – was [fiercely criticised by lawmakers in their grilling of Tony Hayward](#), BP’s chief executive, this month.

“BP chose the more risky casing option, apparently because the liner option would have cost \$7m to \$10m [€5.7m to €8m] more and taken longer,” representatives Henry Waxman and Bart Stupak, chairmen of the committee on oversight and investigations, wrote to Mr Hayward on June 14. Mr Waxman and Mr Stupak also questioned BP’s use of only six centralisers in a well that was known to be challenging

President Obama said that he was looking for an ass to kick and I have to agree with him but part of me wants to give myself a bit of a kick for not reacting to my own doubts that I wrote about back in 2008.

At the time I wrote Opinion piece 30 I said that I was putting my doubts aside because I was putting my faith in the BP Chairman Peter Sutherland. He would have known Tony Hayward a lot better than I could ever know him and he would have made the appointment. At the time I genuinely hoped that they could restore BP to the ranks of the most respected companies because that is one of the reasons why I had originally put them on my recommended list.

I feel let down because as I said back then I believe safety has to be something that is taken as given. I never ask companies I meet about safety because I assume that no company should cut corners with regard to it. I had hoped that Peter Sutherland and Tony Hayward would have managed to get that information down the line to every employee and every contractor.

BP had another strategy day on March 2nd 2010 and in that presentation Tony Hayward once again highlighted safety:

Our focus on safe and reliable operations is now strongly embedded in our business

Once again he reads from a prepared script in a dull and uninspiring way. (You can see this for yourself on the BP website).

Andy Ingles (Head of Exploration) said the following:

BP's strength lies in operating at the frontiers of geography and technology, and executing projects at a scale only a few companies can take on.

Among the majors, we are the leading deepwater producer and have developed strong capability.

We believe significant yet-to-find resources remain in the world's deepwater basins. We will continue to grow our deepwater resources and production throughout this decade.

I feel let down because all these comments appear to be spin and do not reflect reality. The safety culture was NOT embedded in the business and their “strong capability” was NOT strong enough.

In 2008 I concluded by saying:

Will Tony Hayward join the ranks of the executives that I find impressive? Only time will tell but he did not get off to a great start and ultimately I will judge him more by his actions rather than his words.

This time my conclusion is that his actions did not match up to his words and therefore I believe that it is time to fire Tony and Andy and hire people that will mean what they say.

As for Peter Sutherland I would say that picking Tony Hayward was not his finest moment but as he is no longer chairman there is nothing that can be done.