

Strategic decision making in large complex organisations

In our new series on the interface between academic theory and business practice, **Charles Baden-Fuller** examines the efforts of British Petroleum plc (BP) to stay ahead in a hyper-competitive environment.

A lively joint meeting was held between British Petroleum plc (BP) and CARR on 13 May 2003 to discuss strategic decision making in large complex organisations. This article explores the main intellectual themes that were raised at the meeting, and assesses their implications for the risk and regulation agenda.

The theoretical ideas

Complex organisations face the 'Red Queen effect' (a reference to Lewis Carroll's *Alice Through The Looking Glass*): they have to run fast to stand still. To become successful, or to stay successful, they have to run even faster. Many industries feature this kind of hyper-competition. In hyper-competitive environments, there is a degree of similarity between the players. The experience of Dutch financial services is that most firms follow each other and that they do this to avoid the risk of being left out. Yet dangers still remain because blind copying does not eliminate risk. So what can organisations such as BP do? How do they run faster?

The insights of strategic management suggest that the process of strategy – the means by which strategy is developed – is as important as strategy itself. Good processes are harder to copy than good strategies; hence good processes may be the source of advantage. Good processes are also an opportunity to avoid risks of failure. The key processes in any large organisation are: co-ordinating, planning and decision making. These should be seen as 'co-evolutionary', that is, as dynamic interactions between top-management, middle-management, and the environment.

The conversations

BP recognises the Red Queen effect. In contrast to 20-30 years ago, today the oil industry faces hyper-competition. Across the value-chain, the performance of the three super majors – BP, Shell, and Exxon – have converged in the last decade. In this environment, BP undergoes constant change to ensure that it is always moving forward. The dimensions of change are many-fold. They include changes in structures, in the measurement of performance, in systems used to fine tune the

running of the company, and in the people who participate in decision making. The forces for change at BP are both external and internal: the pressures of stock markets and rivals, and pressures from those who work in the corporation who desire to do better and to avoid failure.

One particular dimension of change and differentiation that is considered highly important is the arrival and influence of John Browne as the Chief Executive Officer (CEO) at BP, and the series of mergers and acquisitions that have followed. Another dimension is the emphasis on environmental issues and BP's determination to be progressive. But there are other factors that create path dependency, stability, and occasionally resistance to change. These include BP's history, especially that of its emphasis on oil exploration.

Planning processes in BP are well developed, as a result of the pressures arising from the hyper-competition, and of BP's experience of facing severe financial difficulties in the early 1990s. There are both top-down processes and bottom-up processes. These planning processes do not just involve the divisions and the operating units, but they also engage with interests such as the board and key investors. The discussion at the CARR/BP meeting suggested that planning is highly regarded and has proved to be flexible.

BP's longer-term strategy process is less formalised than its planning process. While there are formal strategy reviews with senior executives, many strategic issues are managed on a more ad hoc basis, involving both informal and formal processes. When challenged, those in the organisation argue that major ideas and initiatives such as mergers that appear to be spontaneous can be traced back to the outcome of planning processes. They can (at least retrospectively) be rationalised and justified into a common framework. It was also argued that planning and strategy processes interacted dynamically.

Performance measurement is a key dimension of BP's planning process. Indeed, the observers argued that this is, perhaps, the most critical feature of BP that provides the real glue to the seemingly disparate set of businesses. But, BP shows no sense of complacency; it has changed its measures over the

years, and there is still evolution and lively debate on the subject. This debate extends to asking methodological and philosophical questions of what should be measured (processes or outcomes) and of how measurement is best executed.

BP's performance measurements are linked to pay and reward, thus providing incentives for maintaining results. But to see it only in these terms is to miss the point. BP closely links performance measurement to resource allocation processes and planning. How resources are allocated is based on both formal prospective systems (plans and proposals) and retrospective systems of assessment of past performance. Planning, proposing, and assessment occur within the system in a complex and sophisticated manner, linking performance measurement to strategising and strategy debates.

Comments and reflections

An unsaid feature of the meeting was that a majority of the people in staff functions at Head Office are there on temporary secondment from the line. This is deliberate. It serves to ensure the secure connection between the line and the centre. More formally, the idea is that the centre will not manage day-to-day operations, but only guide them via planning and performance measurements. To further reinforce this separation, the location of Head Office has been moved recently to a relatively small building in the West End of London. There is a sense of this being a think-tank or centre of ideas.

Second, the central concern of the BP executives is that of communication and coordination. Whereas management and economic theory sometimes assume that hierarchical organisations have systems that facilitate communication, in BP the debate is around the difficulties of doing just this. Many professional planners assume that organisations debate intensely about what to do next, but BP seems to be equally concerned with how to do the next things well. It also believes that this will provide a secure way of thinking about the future.

BP has experienced many mergers and acquisitions recently, and some have been quite significant. This has required the welding of differing cultures into a single enterprise. Although BP has insisted that the acquired companies take on BP systems, several acquisitions have been undertaken to change and sharpen further the BP culture and instil new ideas. These mergers have created constructive tensions. Now, planning and performance measurement rely on language. In BP much time and effort is spent defining ideas, clarifying them, and testing them among the



constituencies and stakeholders. Some of the centrally-driven initiatives are quite small, some are much bigger. The perception is that to change things from above, the language has to be chosen carefully. This organisation may have strong top-management, but it is clearly aware of the need to communicate and coordinate if it is to remain effective.

Discussion

One of the roles of CARR is to promote a sophisticated attitude to risk. Risk has many dimensions, especially in large complex organisations. As a result of the meeting, it seems that further discussions and research can be undertaken on how complex organisations such as BP deal with risk, on what we can learn from their experience, and on what we can suggest to them for the future. For example, BP is heavily dependent on

coordination at all levels to avoid risks. Do the current planning and control systems adequately cope with these risks? The organisation is also under pressure to engage in constant change. Does this pressure to improve performance and to innovate result in the organisation exposing itself, and others, to higher risks along certain dimensions, while it is, at the same time, reducing risks along other dimensions? Although the company takes great pains to identify its many stakeholders (including shareholders, employees, customers, and the environment), the meeting agreed that there appears to be a genuine search for new ideas and new techniques that can resolve as yet hidden tensions.

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NGOs, Democratisation, and the Regulatory State

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In April and September, CARR hosted a two-stage conference with the European Policy Forum (EPF), the European Economic and Social Committee, and the Future Governance Programme of the Economic and Social Research Council (ESRC), on the role and regulation of civil society in national and European governance. The conference began in London with participants responding to a paper by Frank Vibert, director of EPF. Vibert cautiously recognised the benefits of the growing public role of non-governmental organisations (NGOs), but criticised the conventional notion that these organisations are necessarily 'schools for democracy'. He went on to outline proposals for their internal regulation and external accountability. Most respondents to Vibert's paper agreed that NGOs may not actually meet democratic criteria in their own activities. Thus NGOs become not just a regulatory force in their own right but also potential regulatory subjects. The debate turned to regulatory tools that might protect the potentially beneficial initiatives of formally independent civic groups, and that have the capacity to preserve the innovative and flexible character of the NGO sector.

The debate continued in Brussels where the European Commission's current implementation of

new standards for the consultation of civil society organisations provided the backdrop to an exciting exchange of views on the nature and conditions of a European public sphere, and on the representation and regulation of NGOs at the European level. Contributions from a number of civic groups, including Amnesty, Solidar, and the Permanent Forum of Civil Society provided a more empirical, and somewhat optimistic, counterweight to Beate Kohle Koch's and Claudio Raedelli's theoretical work on the limitations of current European democratic systems. Kohle Koch and Raedelli's concern was with the isolation of European political spaces from a European wide political debate and the failure of European citizens to identify themselves as European political actors with the capacity and will to affect outputs. Some NGO speakers urged stronger recognition for NGOs in the proposals from the Convention now being considered by the Inter-Governmental Conference. Yet, the NGOs present spoke in broadly positive terms of the pattern of exchange between the Commission and interest groups. What was also apparent was that NGOs were now accepting the need to take on board the debate on governance and were aware that with NGO influence went NGO accountability. The question for them was the framework.



The meetings benefited from a regulator's perspective provided by Rosie Chapman and Nancy North of the UK Charity Commission. Both speakers pointed to the voluntary efforts of UK charities to improve transparency and accountability, but also argued the need for some international standards for NGOs, such as the international accountancy standards currently being developed for commercial entities and the public sector; as yet, there is no equivalent for the civic organisation. John Roberts outlined the relevance of the debate on the higher standards of corporate governance in the business and its application to debates about higher standards of NGO governance.

The September meeting closed with a contribution by David O'Sullivan, Secretary-General, General Secretariat, European Commission. Mr O'Sullivan cautioned against the dangers of funding a Brussels-based system of NGOs out of kilter with national-based civic groups, and opposed suggestions for an NGO accreditation system which he argued the Commission was unable to develop.

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