

Profile

Photography by Stuart Conway

An audience with...

Tony Hayward

Chief executive of BP

Almost 12 months since taking on the role as chief executive of BP, Tony Hayward is stamping his mark on a company that has faced its fair share of recent challenges. He talks to MARTIN VANDER WEYER about why he believes BP is still a great ship to helm.





The best managers and scientists share a special skill: the ability to explain the most complex issues in the simplest terms. BP chief executive Tony Hayward – who holds a doctorate in geology – is a scientist-turned-manager, and his encapsulation of his company’s distinctive character and modern history is a model of clarity.



“People who work for BP care deeply about the company; they have green and yellow blood in their veins,” he begins, “and I think that’s because this is a company that tries to do the right thing.”

In his early career – when he was based in the imperially-grand Britannic House in London’s financial district, between stints as a field geologist and on North Sea platforms – what he calls ‘heritage BP’ was a comfortable hierarchy of like-minded, lifelong colleagues, a bit like the civil service. Then Bob Horton and David Simon led a drive to turn it into a more modern, commercial enterprise in the first half of the 1990s.

After that came the whirlwind that was John Browne’s 12-year tenure as chief executive. The merger with Amoco in 1998, and the acquisitions of ARCO and

Burmah Castrol in 2000, took BP from a relatively compact ‘two-pipeline company’, with its major assets concentrated in Alaska and the North Sea and a workforce of only 50,000, to a global mega-corporation with more than double that number.

But the post-merger integration process created what might best be described as a severe case of corporate indigestion, while a long run of rising oil prices from 2002 encouraged – hindsight suggests – creeping complacency about profit performance. Worse still, BP’s safety and operating standards were compromised by corrosion and spillages in the Alaska pipeline and by the Texas City Refinery explosion in March 2005, when 15 workers died.

“John built a fantastic company, a stunning company,” says Hayward, reaching for what sounds to me like the only obviously prepared soundbite in an otherwise unspun interview: he has never criticised his predecessor, and takes care to emphasise that they remain personal friends. “Our task now is to demonstrate that we can run it.”

He is talking about much more than the turnaround of BP’s two major US refineries – the \$3.8 billion upgrade of Whiting, the former Amoco plant in Indiana, as well as the recommissioning of Texas City. But the traumatic aftermath of the Texas tragedy has been ‘transforming’ for the company, a catalyst for deep-rooted change.

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risks we were running.” The Baker Panel, the commission of inquiry led by former US Secretary of State James Baker, which reported back last year, “was quite rightly scathing, but it has provided us with a road map for a three- to five-year journey to transform our operations globally.”

What Hayward is talking about on a wider front – and, after almost a year in the chief executive’s seat, beginning to implement – is a radical overhaul of BP’s entire *modus operandi*. And, again, simplification is the key. “We have fantastic assets and great people,” he says. “We just have to make them come together in a more powerful, efficient, productive way.”

At the core of the problem was the highly bureaucratized management structure that resulted from the mergers and acquisitions. When he took over from Browne last May, Hayward commissioned outside consultants to “hold up a mirror to the group.” What they showed him was ‘pretty ugly’. They told him: “You’ve set a new benchmark for complexity.” They unearthed no less than 7,500 ‘operational interfaces’ – that is, potential management blockages – and their report confirmed the anecdotal impression Hayward formed for himself when touring BP operations around the world in the months before he took over.

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“The people who know most about this business are the people out there running operations on the ground. And what many of them were saying to me was, ‘this is a great company and we love it. But boy, is it difficult to get a decision.’ What I learned was that we’d become far too introspective at the top. In particular, we weren’t listening to the operating people on safety and reliability.”

Hayward took his senior management team offsite for two days at the end of August last year to think about all this. What they came up with was a radical simplification of structure. BP now consists of just two segments, Exploration & Production (E&P) and Refining & Marketing, and the stand-alone business Alternative Energy; superfluous layers of

management are being cut out as part of a \$1 billion-plus restructuring, which will eventually reduce the workforce by 5,000.

Besides this internal upheaval, he explains, BP has to contend with the external stresses of an industry in which “the supply chain has broken” in the face of surging energy demand – especially from China, which has compressed into less than a decade an industrialisation and urbanisation equivalent to the entire economic advance of Europe from 1945 to today. After an era of under-investment, when oil prices were low, there are simply not enough physical and human assets available: he quotes the example of drilling-rig lease costs, which have risen within a few years from a day-rate of \$200,000 to upwards of \$550,000. BP plans are based on an oil-price range in the medium term of \$60 to \$90 a barrel, but those who think such high prices automatically mean high profits for oil majors haven’t grasped what the supply-demand equation has been doing to operating costs.

These are mighty big issues to be addressed by a newish – and, at 50, still strikingly youthful – chief executive. So, is he enjoying the job, I wonder, with the fierce scrutiny it brings from City analysts and the media, and its unremitting burden of overseas travel? »





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He’s struggling through this interview with a heavy cold, but still he looks cheerful and relaxed. “I love it,” he says – but he’s also prepared to agree with the old adage of military life, that being a senior general can be a lot less satisfying than commanding a battalion in mid-career. In Hayward’s case, battalion command came in the form of the presidency of BP Venezuela in his late 30s, when he had only 500 people working for him, and it was possible to know them all personally.

It was there that his view of the paramount importance of operational safety was formed by the searing experience of attending the funeral of a worker killed in an accident at a BP plant, and being confronted by the dead man’s distraught mother. Running the Venezuelan operation was, he says, a life-changing experience, which taught him that managing people, even in a technology-driven business, is “more art than science...your staff actually have to believe in you. You have to shed your corporate shell and let them see the real you.”

But is there a risk that the Hayward both the outside world and the BP workforce will see most of for the next few years is the hands-on manager grappling with internal challenges of safety and efficiency, rather than the visionary leading the company towards new frontiers? He counters that suggestion with a quick global canter through some of BP’s most exciting assets of the future, from the deepwater Gulf of Mexico to the oil sands of Canada and recent finds in Azerbaijan, Egypt and Angola. And he mentions TNK-BP,

Russia’s third largest oil company, which now accounts for a quarter of all BP’s production and 10% of the group’s profits.

Hayward himself first put together the nuts and bolts of BP’s 50% interest in the TNK-BP joint venture in 2003, in his previous role as head of E&P. The partnership with two groups of Russian private-sector investors, Alfa and Access-Renova, has not always been plain sailing, but Hayward regards it as a success for the BP philosophy of ‘doing the right thing’ and says BP is determined to make a success of its investment in Russia.

“If you perform well, the Russians genuinely want you to stay,” he says, pointing out that TNK-BP has paid \$60 billion in Russian taxes in its first five years.

So it’s not all restructuring and financial reengineering; there are some very bright lights on the BP world map. But, I suggest to Hayward, it does rather seem to be all about oil these days: all that talk, not so long ago, about BP meaning ‘Beyond Petroleum’ seems to have faded quietly into the background, has it not?

Hayward is quick to deny any such shift. Far from being de-emphasised, he says, BP’s alternative energy interests have been given greater focus by being pulled out of the disparate parts of the group where they used to sit and into a single new division, which will receive \$1.5 billion of new investment this year. In particular, BP’s extensive wind-turbine estates in the US, with 350 megawatts of generating capacity (enough to supply 120,000 homes), now have the makings of a valuable and important business.

And he reminds me that, however green we might all wish to be, the world is clearly going to be consuming carbon fuel in huge quantities for many years to come. In that context, BP’s commitment to cleaner fuels, higher extraction rates from existing oil fields and a lower overall carbon footprint for all its operations, is still the most important environmental contribution any global energy company can make.

Our conversation ends on that upbeat note – and, as I leave the executive floor of the St James’s Square headquarters, I notice Tony Hayward slipping in to the investor relations office to check the morning’s movement in BP’s share price. It’s a reminder of one of the most potent short-term pressures that plague modern public-company chief executives. Hayward faces longer-term pressures, too, having set himself the high goal of a complete change in BP’s operating processes at a time of unprecedented demands on the entire energy industry.

But, he has the advantages of a scientist’s clarity of mind, combined with a lifelong BP man’s human understanding of what makes the company tick. BP, I sense, is in good hands. **BPM**

Writer biography >

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