Corporate governance

Board activities

bp’s success is dependent upon effective and entrepreneurial leadership by the board, establishing its purpose, strategy and values and doing so within a framework of prudent and effective controls, which enable risks to be assessed and managed. The board is responsible to bp’s owners for promoting the long-term sustainable success of the company, generating value for its shareholders, while having regard to its other stakeholders, the impact of its operations on the communities within which it operates, and the environment.

Primary tasks of the board in 2020 included

Defining and establishing a new purpose and strategy, while assessing and monitoring whether they were consistent with bp’s culture and values.

In light of the significant operational challenges presented by the COVID-19 pandemic, establishing a rhythm of board meetings to ensure that the leadership team was supported, providing guidance to the CEO to ensure that shareholder and other stakeholder interests were taken into account, while maintaining safe and reliable operations.

Monitoring the activities and performance of bp’s leadership team, obtaining assurance about the delivery of 2025 and 2030 targets and aims and the sustainability frame within which they operate.

Designing and establishing the board’s new corporate governance framework, including the delegations of authority under which it operates.

Assessing and monitoring the principal risks and emerging risks of bp, having considered feedback from the committees of the board.

Ways of working

New ways of working were put in place during 2020 alongside the changes to the design of the board’s corporate governance framework. Meeting agendas were structured along four distinct pillars: strategy, performance, people, and governance, with the overarching focus being on the development of bp’s new strategy in support of its transition to an Integrated Energy Company.

The board and its committees met regularly during the year, as well as on an ad hoc basis, as required by business needs. Attendance is shown in the table on page 84. Although the board and its committees were able to hold physical meetings in the early part of the year, once COVID-19-related restrictions and controls were introduced, most meetings took place virtually. Throughout the year, the board and its committees continued to engage effectively through the use of technology. Key areas covered during 2020 under each of these pillars are set out on the next page.
Strategy

During 2020 the board worked closely with the incoming chief executive officer (CEO) and his leadership team, establishing a new purpose and strategy for bp. bp’s purpose is to reimagine energy for people and our planet, with an ambition to become a net zero company by 2050 or sooner, and to help the world get to net zero. This new purpose recognizes:

- The world is on an unsustainable path – its carbon budget is running out.
- Energy markets have begun to shift towards low carbon and renewables.
- Oil and gas produced safely and efficiently will continue to perform a vital role for the world and our business, but over the longer term, demand for both oil and gas will be challenged.
- bp can contribute to the energy transition the world wants and needs and create value in doing so.

The delivery and execution of the strategy that supports this new purpose is made possible through a resilient financial framework, including a new approach to capital allocation. In 2020 the board determined a new distribution policy, which will support us in facing an increasingly uncertain world, allow us to strengthen the balance sheet, invest in our resilient and valuable hydrocarbons business, and invest adequately into the energy transition. A new distribution policy was approved by the board, comprising a reset and resilient dividend and a firm share buyback commitment, see page 22.

Associated with the new strategy, the board also agreed a number of tactical divestments, including the disposal of its petrochemicals business. Alongside this, new business opportunities were progressed, for example the formation of a strategic partnership with Equinor, to develop offshore wind energy in the US, see page 21.

Against the backdrop of the board’s activities during 2020 described in this section, the table on pages 82 and 83 sets out some examples of board decision making in 2020 and how the directors have performed their duty under Section 172.

Performance

The board reviewed project, operational and safety performance throughout the year, as well as the latest view on full-year delivery against plan and the implications for the group’s scorecard measures. Equally, in light of the challenging macro-economic environment facing the sector, the company’s financial performance, liquidity, credit position and associated financial risks were closely and regularly monitored by the board. In this way and through the regular interactions that were taking place during the year, the board was able to satisfy itself that bp was performing while transforming.

Reports supplementing the role played by the board included:

- CEO and chief financial officer (CFO) reports.
- Group financial outlook.
- The annual effectiveness of investment review.
- Quarterly and full-year results.
- Shareholder distributions.
- The annual plan and associated capital allocation commitments.

On risk oversight, the board, assisted by its committees, also regularly reviewed its principal and emerging risks, including the process through which they are identified, evaluated and managed. Linked to this, the high-priority risks were reviewed in 2020, giving the directors the chance to seek assurance as to how those risks were prioritized and being managed.

On internal controls, the board also assessed the effectiveness of the group’s system of internal control and risk management as part of the process through which it reviews and, ultimately, approves the bp Annual Report and Form 20-F. No specific areas of significant deterioration were identified in this assessment. The board concluded that the group’s system of internal control continued to be resilient. The board also concluded that the overall design of the group’s system of internal control generally meets external expectations of components to be included in internal control frameworks. In arriving at these conclusions, the board took into account reports from group risk and internal audit, as well as reviews undertaken by the board and its committees during the year. In conducting reviews during the year, the board and its committees considered the impact of remote working on the control environment, among other key factors.

For more information on bp’s system of risk management see How we manage risk on page 64. Information about bp’s system of internal control is on page 127.

People

The board, through the former nomination and governance committee, continued to focus on reviewing its own composition, skills, experience and diversity, as well as that of the bp leadership team. Ultimately, new board appointments were made during the year, most notably with the retirement of the CEO, Bob Dudley, and CFO, Brian Gilvary, succeeded by Bernard Looney and Murray Auchincloss, respectively.

Tushar Morzaria was appointed to the board and its audit committee with effect from September 2020. Karen Richardson and Dr Johannes Teyssen were appointed to the board with effect from 1 January 2021. Johannes was also appointed to the safety and sustainability committee with effect from the same date. A new leadership team under the CEO came into being on 1 July 2020.

Through the new people and governance committee, the process for executive succession planning, talent management and development is being redesigned. People insights – particularly the reinvention of bp and its impact on the organization – were presented to the board and this committee by the CEO and EVP, people & culture, providing information on matters relating to people strategy, employee engagement, diversity and people processes and policies. To help inform board discussions and decisions, board members also engaged directly with the workforce in structured events, see page 87.

Governance

The board established a new corporate governance framework, which is more closely aligned with bp’s new purpose and also reinforces the effectiveness of the internal control framework. For more information on the new corporate governance framework see page 88.