External (Unforeseen) Threats And The Impact On Businesses

Posted on July 26, 2022

Introduction

In the global marketplace, businesses face many external threats that negatively affect their growth and sustainability due to the growing number of catastrophic crises and disease eruptions all over the world. Therefore, many conceptual models and theories have been developed to build an effective and sustainable model for enterprises to manage their active and effective response to these disasters and crises. COVID-19, which has been proven to be one of the greatest challenges in the 21st century, has not only brought infections and deaths but also disturbed economic activities destructively. In this regard, a critical analysis is made to investigate the response of BHP Mining Company towards the pandemic and its influence on the business strategy and operational structure of the company. Moreover, potential key factors that impact the operational sustainability of any industry and its capability to transcend adversity in the time of the COVID-19 crisis are explored, and recommendations are made in the light of different commemoratory management theories.

Critical Analysis Of Response Of BHP Towards COVID-19 Crises

COVID-19 and Its Impact on BHP Company

World Health Organization (WHO) declared the COVID-19 virus a pandemic on 1st March, which caused the greatest economic disruptions in almost every country by adversely impacting the global supply chain. In its April 2020 World Economic Outlook, the International Monetary Fund projected that the global economy would contract by 3% in 2020—the sharpest downturn since the Great Depression—and estimated a cumulative output loss of about $9 trillion during 2020–2021 (Obrenovic et al. 2020). Although currently, Australia has a lesser number of infected people and deaths per 100,000 people due to quick physical distancing measures, comparatively high national wealth, stable political system, and its isolation geographically, the businesses in the country are still facing the effects of economic shocks due to virus outbreak (Baur & Trench 2020; O'Sullivan, Rahamathulla & Pawar 2020). Its major impact on mining industries has been the continuously decreasing demand, which eventually halted industrial production and construction and drastically reduced the prices of metals and minerals (Laing 2020). BHP, which is one of the largest producers of iron, coal, copper, and other minerals (Ahumada, 2020), also faced a huge loss of 45% in its market value when the virus spread on a large scale in March (Laing 2020). However, to deal with this unforeseen situation, the company deployed many efforts to ensure safety at the workplace and changed its operational structure to minimize the loss as the leading mining industry in the world, as described below.

BHP's Response to COVID-19

Although it is not possible for companies to avoid crises, they can take measures to eliminate or prevent their effects on business operations. Therefore, in response to COVID-19, the BHP group is taking many actions to protect its employees, their families, and communities based on the conditions of the corresponding mining location. In this regard, it has followed strict guidelines provided by the WHO, including social distancing, hygiene, and health screening, and has implemented new measures for health and wellbeing in compliance with the government (BHP continues global response to COVID-19 2020). Moreover, it has initiated many assistance programs to help health departments improve their testing capacities and medical treatment equipment, and it has provided direct donations to different welfare organizations to support communities. So, it shifted its priorities entirely toward the people as a gesture of social corporate responsibility, which further helped it run the business smoothly, as indicated by Mike Henry, the current chief executive officer of BHP (Henry and Görner, 2020). He further added that this resilience of the company is based on the strong relations with not only "employees, but also communities, business partners, and traditional owner groups, who have come together to keep the business running." The social exchange theory also highlights the importance of these social connections in regulating, improving, and handing over resources for mutual benefit (Mora Cortez & Johnston 2020). Moreover, by differentiating coronavirus crises from other financial-based crises, (Mora Cortez & Johnston 2020) emphasized that such social exchange interactions also contribute to economic outcomes which increase trust and commitment and, therefore, are equally important as economic dimensions of business growth. However, for complete insight into the crises and consequently to develop an applicable business model based on the particular environment and culture of the BHP company, integration of more crisis management theories is needed, which are discussed in the following section.

Management Theories and Business Challenges

The BHP Company had to face many changes in its business operations, and, according to Benjamin (2020), it deferred the decision to invest in the Scarborough gas project on the coast of Western Australia. Moreover, it has stopped its operations on different petroleum projects owing to the decreasing prices of petroleum-based products until 2021. Therefore, any early assessment of such external threats and quick response can be very helpful to mitigate their harmful impacts. In this regard, there are many theoretical models available to analyze and cope with the social and economic impacts of natural disasters in the light of different management theories.

In general, management theories perceive crises as organizational and political issues and thereby not only signify the establishment of different steps of crisis management, i.e. "detection, prevention/preparation, containment, recovery, and learning but also provide different corresponding crisis-response strategies for sustainable growth" (Obrenovic et al. 2020). For example, the Theory of Crisis Management Teams, which was proposed by Mitroff (1988), focuses on the formation of permanent crises management team, and the Distributed Cognition Theory (Hutchins 1995) emphasizes the integration of different internal and external business units and as well social and environmental units, and the Stakeholder Theory (Clarkson 1995) highlighting the interests of stakeholders in management decisions, provide tools and functions necessary to develop an effective response plan, especially in the time of global crises such as COVID-19. These theories involve all necessary business functions that serve as the fundamental blocks for any response plan to mitigate the adverse impacts of any crisis. However, the implication of these theories is limited based on the business structure and the nature of the disasters. With regard to COVID-19, the theoretical "Enterprise Effectiveness and Sustainability Model during Pandemic" framework was developed by Obrenovic et al. (2020) from the perspective of digital transformation organizational characteristics, operations, and financial management. The model suggests that distributed leadership and employees, more informed and decentralized decision-making, and an adaptive culture are the key factors for sustainable operations during a pandemic. Moreover, since scarce resources are the most prominent consequence of any crisis, this integrated model recommends practices to allocate the company's resources wisely. Therefore, this model can be applied by the BHP group for strategic decision-making to stabilize the growth in the post-COVID-19 era.

Recommendations for Future Crises

After reviewing the preventive actions taken by the BHP Company, it can be observed that although the company implemented a contingency and risk management plan, the current approach towards tackling the immediate crisis issues is not appropriate in terms of practical effects, as clear from performance and growth parameters. It is also evident that the entire mining sector was underprepared to manage an immense magnitude of multidisciplinary crises like COVID-19. Therefore, it is vital to evaluate business processes and economic actors more carefully. In this regard, their comprehensive understanding in times of severe crises can lead to the development of more effective tactics, and companies like BHP Group, which have a strong networked structure, straightforward and flexible guidelines, distributed workforce, and less interdependence are even better at adapting the dynamic situation and respond to the crises effectively.

Moreover, for sustainable growth, the entire mining sector needs to produce new resources and deposits, be flexible in responding to rapid advancements in technology, and observe financial resilience. Apart from this global crisis, climate change is another major challenge that has potential impacts on business in the near future. Therefore, it is recommended that these impacts be analyzed and business models designed accordingly to effectively combat the disasters, as argued by Laing (2020). Furthermore, by reviewing the response of the BHP group against the pandemic, interdisciplinary scholarship to address the global challenges along with developing partnerships with key stakeholders can be highlighted to deliver impact research required for the pandemic and postpandemic era (Beech and Anseel, 2020). Meanwhile, the experienced globalization effect due to pandemics must also be incorporated while perceiving the international impacts (Budhwar & Cumming 2020).

Conclusion

To conclude, COVID-19 has affected businesses all over the world, and BHP has also faced the same economic disruptions. Although it has taken very effective measures to cope with the uncertain situation due to pandemics, there is a need to deploy an active response model to mitigate the impacts of such disasters in the future. Moreover, to cope with natural disasters, businesses need to incorporate the globalization effect and technological advancements while developing their business models.

References

Ahumada, C 2020, ‘BHP mine water management: an integrated approach to manage risk and optimise resource value’, Proceedings of the 2020 International Symposium on Slope Stability in Open Pit Mining and Civil Engineering.

Alpaslan, CM, Green, SE & Mitroff, II 2009, ‘Corporate Governance in the Context of Crises: Towards a Stakeholder Theory of Crisis Management’, Journal of Contingencies and Crisis Management, vol. 17, no. 1, pp. 38–49.

Baur, DG & Trench, A 2020, ‘COVID-19 Infection of Australian Companies’, SSRN Electronic Journal.

Beech, N & Anseel, F 2020, ‘COVID-19 and Its Impact on Management Research and Education: Threats, Opportunities and a Manifesto’, British Journal of Management, vol. 31, no. 3, pp. 447–449.

Benjamin, C 2020, BHP Group deferring projects due to COVID-19 challenges, CEO Mike Henry says, www.spglobal.com, viewed 4 September 2020, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/bhp-group-deferring-projects-due-to-covid-19-challenges-ceo-mike-henry-says-58383044>.

BHP continues global response to COVID-19 2020, BHP, viewed 4 September 2020, <https://www.bhp.com/media-and-insights/news-releases/2020/05/bhp-continues-global-response-to-covid-19/>.

Budhwar, P & Cumming, D 2020, ‘New Directions in Management Research and Communication: Lessons from the COVID-19 Pandemic’, British Journal of Management, vol. 31, no. 3, pp. 441–443.

Clarkson, MBE 1995, ‘A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance’, The Academy of Management Review, vol. 20, no. 1, p. 92.

Henry, M. and Görner, S., 2020. Prioritize people in times of crisis: An interview with the CEO of BHP. The McKinsey Quarterly.

Hutchins, E 1995, Cognition in the wild, MIT Press, Cambridge, Mass.

Laing, T 2020, 'The economic impact of the Coronavirus 2019 (Covid-2019): Implications for the mining industry', The Extractive Industries and Society.

Mitroff, II 1988, Crisis management : cutting through the confusion., National Emergency Training Center, Emmitsburg, Md.

Mora Cortez, R & Johnston, WJ 2020, 'The Coronavirus crisis in B2B settings: Crisis uniqueness and managerial implications based on social exchange theory', Industrial Marketing Management, vol. 88, pp. 125–135.

Obrenovic, B, Du, J, Godinic, D, Tsoy, D, Khan, MAS & Jakhongirov, I 2020, 'Sustaining Enterprise Operations and Productivity during the COVID-19 Pandemic: "Enterprise Effectiveness and Sustainability Model"', Sustainability, vol. 12, no. 15, p. 5981.

O'Sullivan, D, Rahamathulla, M & Pawar, M 2020, 'The Impact and Implications of COVID-19: An Australian Perspective', The International Journal of Community and Social Development, vol. 2, no. 2, pp. 134–151.