Oil And Gas Risk Management In Angola

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Introduction

In organizations operating internationally, managers face challenging political risks that arise due to the uncertainties and complexities of the increasingly dynamic and threatening organizational world. Running companies or organizations with this complex reality is a daunting task. Therefore, for large oil and gas companies, political risk management strategies are a crucial consideration. The process of risk management in organizations is referred to as the process of identifying the political risks posed to the organizational resources, quantifying those risks, and treating them (Nwaeke and Harcourt, 2008). The process of risk management in an organization acts like an intermediate interactional bridge between the country of operation in which the organization extends its services and the external world.

Large oil and gas companies working in developing countries invest a lot in the risk management sector as they need to get returns through the national resources such as gas, oil, and minerals in their country of operation. This escalates the chances of political risk for large oil and gas companies in developing countries. For example, Angola is one of the developing countries where the political climate always changes without any prior warning, which escalates uncertainty and instability in the organizations. This paper delves meticulously into the examination of the risk management strategies for the mitigation process of political instability risks in Angola employed by the upstream oil and gas companies.

Angolan Oil and Gas Production

The pillar of the economy of Angola is its oil sector, as the Angolan government largely depends on the oil and gas sectors to boost the economic status of the country, as the presidency directly controls and manages this sector. In Angola, upstream oil and gas companies, including British Petroleum (BP) and Chevron, invest billions of American dollars each year to operate the upstream oil and gas sector. It is estimated that British Petroleum in Angola invested more than 15 billion USD between the years 2009 to 2019. Thus, BP has concrete risk management strategies to mitigate uncertainty and instability that can raise political risks associated with the company’s investment. Alongside other oil and gas companies, the concrete investment of BP in the risk management sector would cost it the return on the dollars invested. Fernandes et al. (2019) also affirm that the large oil and gas companies in their country of operation face serious political risks due to investments being

expropriated or unilaterally changed by the host country or government of oil and gas companies.

Political Risks Related to Uncertainty and Instability

It is asserted that peace and political stability are the major challenges faced by developing nations around the world as they invest a large amount of US dollars in the oil and gas sector (OBE and Weimer, 2011). The reason for these challenges lies with the officials of the country of operation who prioritize establishing a democratic society based on the country's law. For instance, the oil and gas sector in Angola is subjected to the interference of the government as British Petroleum is controlled and managed by its headquarters in London at the expense of a large oil and gas company hosted in Angola. The oil production of Angola has reduced due to the political risks and challenges due to the instability of the government, which has subsequently resulted in a high inflation rate compared to the year 2012. Therefore, the Angolan nation has to look for a strategy to increase the production of oil and gas so that its economic status can be boosted.

Political Risks Categories

The research regarding the risks related to the political instability of the country of operation is classified into two significant categories: macro and micro political risks categories. These are the risks that affect all the companies working internationally in a country of operation. The identification, quantification, and strategies to resolve these risk factors play a crucial role in the establishment of the best risk management strategies in oil and gas organizations. First and foremost, the macro-political risks category includes civil wars, tax escalations in the country over the common masses, and the devaluation of the currency that affects the oil and gas sector at a great cost. On the other hand, the micro-political risks category includes sector-specific regulations in the country and low-level corruption of the foreign companies in the country where an organization operates. In the case of Angola, a developing country where political instability is at its peak, both macro and micro political risk categories affect the operations of the oil and gas organization. For example, British Petroleum can be affected through overlapping intersections or individual mismanagement.

Furthermore, researchers also classify these political risk categories into internal and external initiators, in which the former describes risks driven by political group activities, and the latter describes risks driven by diplomatic activities within a country. Diversely, internal initiators discuss political instability risks that emanate from extreme civil wars and governmental actions. However, external initiators discuss political instability through factors that include wars in extreme cases and economic covenants based on international actions (Muller and Kolk, 2010). These initiators are crucial for the establishment and management of the framework for mitigating political risks in oil and gas organizations.

Reasons for Political Instability Risks in the Angolan Oil and Gas Sector

Angola is one of the countries that attained its freedom through armed struggle. This resulted in a scarred nation due to the constant post-independent infighting that displaced populations, consequently resulting in food shortage, social imbalance, and politicization of various organizations. Angola, since its independence, has suffered a lot from social imbalances that distorted its social construct in the world for a long. However, the only sector Angola currently relies on is the oil and gas sector, which has been sustaining the economy of the country since independence, and therefore, the politicization of this sector occurred. The former Angolan president, Dos Santos, after his 38 years of political regime, passed his sovereignty to his children, which escalated the uncertainty levels as Santos placed his children in charge of the Sonangol's funds that are connected to oil and gas organizations, including British Petroleum and Exxon. This step of the former president would highly affect the oil and gas sector's performance and revenues as Sonangol, a Portuguese operational company in Angola that oversees oil and gas operations, performance, and political risk management in the country, has ceased making payments to the Angolan state. The reason is that Santos passed on the sovereignty funds to his children, and the company, for many years, could not produce heavy revenues for the state. It is asserted that Angola's oil and gas companies' revenues have made other sectors of the country vulnerable to external environmental and international political shocks.

The heavy dependence of Angola on this sector has been keeping and upholding the country's social fibre, influence on sub-Saharan Africa, and fuel industry intact and stable among the other developing countries (Fernandes et al., 2019). The condition of British Petroleum and other oil and gas companies in Angola clearly reflects that the oil and gas sector is subject to nationalization as the host government unilaterally hikes the petroleum costs with varying terms and conditions the host government poses to the Angolan oil and gas sector. This phenomenon keeps changing the terms and conditions through regulation and legislation by the host government, as Britain can change the agreement terms of British Petroleum in Angola to benefit the United Kingdom in its own interests. This sort of political activity directly affects the oil and gas sector of Angola, and therefore, its varying revenues affect the performance of the organizations as well as the economic status of the country. This sort of political involvement confirms and strengthens the idea of the government's connection and involvement in political actions in the oil and gas sector of Angola, which largely affects revenues. Thus, the direct political influence in Angola exposes the risk factors in the oil and gas sector. For example, a president can attain support from the elites of the country, which shows the instability and risks due to political interferences. It can be deduced that the oil and gas sector in Angola is highly politicized, which has raised the risk of political instability in the oil and gas companies due to political or governmental involvement.

Resource Curse in Angola

Many multinational companies around the globe try to invest in the oil and gas sector of Angola because of the fact that the country has a low corruption index compared to other countries around the world. Transparency International report also confirmed in recent years that the oil and gas sector of Angola is under international scrutiny and, therefore, is subject to multinational organizations' investment as compared to the other developing countries with the same national resource. This has strengthened the idea that Angola is just affected by a resource curse. Otherwise, it is a profitable place for international or multinational companies to invest in generating great revenues each year (Wiig and Kolstad, 2010). Another reason why Angola is a resource curse is the ultimate international scrutiny of the oil and gas companies, which affects their operations due to the involvement of host governments. This is an external initiator that categorically indicates a daunting political risk at the expense of the organization due to international interference. International companies perform scrutiny to benefit the host country or government in Angola, but oil and gas organizations are greatly affected by the process. Therefore, it is asserted that large oil and gas companies operating in Angola, irrespective of their host country of operation or government, should watch out for political interferences to mitigate the political risks these international companies pose while scrutinising. For instance, British Petroleum operating in Angola should ensure that the operations of the international scrutiny company are protected so that the oil and gas company can avoid huge losses on the investments BP has made to generate set yearly revenues.

Financial loss is not only a risk or threat to the oil and gas companies in Angola, but international scrutiny also poses dire threats to the reputation of the companies, which are mostly raised from market-led risk factors that emerged due to political risks. Most of the time, while a company is subjected to international scrutiny, the reputational risks bear political agendas due to market-led factors that are crucial for any oil and gas organization operating within Angola. For instance, the political actions of international activists in Angola, bearing some political agendas behind the scrutiny, would likely affect the oil and gas company, British Petroleum. These actions would result in public boycotts, which would directly or indirectly attack the reputation of British Petroleum. In such an occurrence, the agenda at the expense of British Petroleum, an oil and gas organization in Angola, will directly lead to operational risks for the organization, which may affect the country's economy. British Petroleum, in such a risky public demonstration, must anticipate the operational as well as legal risks. Such legal, operational, reputational, and political risks loom in the environment of any multinational company subject to international scrutiny (Alon and Herbert, 2009). Such organizations encountering political interferences and governmental events are bound to confront financial as well as reputational losses by handling the risks through political risks and management strategies.

Risk Management Strategies Employed by the

Angolan Oil and Gas Sector

Wilkin and Zonis proposed a management framework for the mitigation of political instability risks in organizations, stating that effective management within an organization depends upon a structural and systemic approach. They shared an effective approach to dealing with political instability and operational risks, which rests on the external and internal drivers of potential risks. Zonis and Wilkin suggest that the first step is understanding the nature of political risks to enable a company to establish effective risk management strategies. This step ensures that the strategy to mitigate risks should be capable of resembling specific risks. In such an occurrence, an oil and gas company establishes the creeping nationalization as a political instability threat to the company (Fernandes et al., 2019).

The organization should focus on a strategy to negotiate an equilibrium clause in its agreement with the host government so that future impacts of the business challenges can be protected from stabilizing adversaries. In that case, agreement clauses for an oil and gas company such as British Petroleum or Exxon would establish an agreement for the intruding governmental or political body. The agreement would state that if the economic benefits of BP or Exxon were affected by political interference, then the involved operational bodies would have to adjust the contractual agreements. It must be made clear to the involved parties that fiscal or economic benefits would be adjusted in the absence of unilateral governmental regulations or political legislation (Rios-Morales et al., 2009). In such an occurrence, British Petroleum in Angola, since its starting point, has always ensured a concrete relationship to bridge the Angolan and UK governments so that the BP Oil and Gas Company's contractual benefits based on its yearly revenues should remain cushioned. In this way, the organization would be protected from the anticipated political instability risks (Fernandes et al., 2019).

Application of Risk Management Framework in Angolan BP Oil and Gas Company

British Petroleum Oil and Gas Company in Angola, since its establishment, seems to be strongly built on Zonis and Wilkin's approach to mitigating political risks and external drivers. It is clear that Angolan British Petroleum emphasizes the risk identification approach while understanding the Angolan political environment concerning the country's existing operations. The company understands that risks should be assessed, and therefore, BP Company has formed a risk committee to offer the management section the best possible solutions for the anticipated political risks. The risk committee is part of the BP organization that understands the unpredictable political situation of the country to create an anticipatory mechanism based on a British-established oil and gas company with the Angolan government. This committee, focusing on Zonis and Wilkin's framework of political risk management, cushions the operations of British Petroleum from uncertainties.

The risk committee of British Petroleum acts as a subset of the leadership team of Angolan BP as it conducts monthly scrutiny for political instability. The team makes informative observations at the London headquarters because the Angolan political climate is always bound to unpredictable political challenges. The international management team at the BP headquarters oversees the ever-changing structures of the political risk stature as an anticipatory mechanism that matches emerging political risks in Angola. This anticipatory mechanism in the Oil and Gas Company ensures that the company works in a surprise-free environment to manage the political environment of each foreign country in which British Petroleum operates. Angolan British Petroleum Oil and Gas Company asserts that the self-insurance basis is used to protect the company against risks emanating from uncertainties and political instability as a risk management strategy for the well-being of the country. However, political risk insurance is not part of British Petroleum's risk committee's priority as this insurance mostly favours smaller oil and gas companies that gain their insurance options from larger oil and gas companies in the country of operation. Therefore, the risk and management committees of British Petroleum in the London headquarters negotiate only with the large influence bodies to oversee all oil and gas political risks and operational matters in Angola.

The second key management strategy based on Zonis and Wilkin's framework to mitigate organizational and political risks is the positive business relationship that the British Petroleum Company has always valued since its inception in any developing country, particularly in Angola. The Angolan corporate world has a low index of corruption perception; therefore, this strategy ensures a safe working environment even in the unpredictable political challenges to favour organizational operations. Consequently, British Petroleum pays utmost attention to relationship consideration and finds positivity in its operational environment alongside government and regulators through interaction drivers. British Petroleum utilizes interaction drivers to maintain a good business relationship in the corporate environment intrinsically or extrinsically to boost the social performance of the BP Oil and Gas Company. It is understood that political instability is always drawn from the social world. Zonis and Wilkin suggest a good relationship strategy to orchestrate political uncertainty through the social success of the organization. In a nutshell, a company which has a well-established social relationship with the regulators, government, consumers, and people of the country where it operates has more strategies to mitigate the political risk occurrences in the external environment.

British Petroleum Angola, in this regard, has gone the extra mile to leave no stone unturned to incorporate its interaction or relationship strategy in the corporate world to improve its relationship quality and reputation with the external environment. BP always values the locals of the country in which it operates to ensure that the organization is performing at its best. So, to achieve that in a foreign country, BP involves the local people of the country to gain social favour. The same strategy has been adopted in Angola so that the Oil and Gas Company can benefit from its investment by building social interactions in the host country. Additionally, this consideration gives BP the power over its environment to encounter political risks such as higher governmental taxation problems in Angola.

Conclusion

Political and operational risks that emanate from uncertainty are crucial challenges for international organizations like British Petroleum, which is extending its services to a developing country, Angola. Angola, as a developing country, has the best approaches and practices to mitigate political risks of uncertainty and instability amid the ever-changing political situation. Many well-known oil and gas companies, including British Petroleum, have a good positioning strategy to identify, quantify, and mitigate any potential political and operational risks. The Company anticipates that the mitigation strategies developed for political risk management would support concrete decision-making to help the company thrive internationally and around the globe. BP Angola asserts that good political risk management and mitigation strategies will support further future investment in the country and around the world.

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