

CORPORATE GOVERNANCE AND CORPORATE RISKS: AN INEVITABLE NUCLEAR ACCIDENT IN JAPAN

Cindy Yoshiko Shirata
Tsukuba College of Technology Japan

INTRODUCTION

A nuclear accident at a uranium-processing plant run by JCO Co. (JCO, for short), a subsidiary of Sumitomo Metal Mining Co., Ltd. (SMM, for short), occurred on September 30, 1999 in Japan. That accident reached criticality, injuring three workers and pushing radiation levels up to twenty thousand times beyond normal in that area on that day [1]. This paper pointed out that a parent company of JCO never disclosed any risk information on their public financial statements even though their subsidiary had been in a hazard or peril to cause the nation's worst-ever nuclear accident.

CORPORATE GOVERNANCE AND CORPORATE RISKS

According to the public available filings submitted to the MOF Japan on March 2000 from SMM, they own two million (100%) JCO stocks, an amount of one billion yen in their book value. The position of SMM is not only a parent company of JCO but they have been providing technical support service of nuclear engineering business to them. Just after the accident, SMM expressed the sympathy for the accident and agreed to finance part of the compensation costs.

Total amount of compensation and other costs as a result of the accident of JCO cost SMM 15.5 billion yen for the time being. Their operating income for fiscal 1999 was 8.9 billion yen. Therefore, it is conceivable how much affect the 15.5 billion yen extraordinary loss for fiscal 1999 on their financial position. They never mentioned before in their annual reports or in their public available filings that their nuclear business run by JCO was in danger. Not only before the accident but also after it, they do not touch on the prospective monetary compensation or future risks in their public filings in 1999 even though their stock price had decreased more than 50% after the accident. Nobody of JCO/SMM had expected the accident occurrence at a fuel processing plant. Managers could not announce the dangers to the public unless they acknowledged hidden risks. However, after coming to the surface of their holding risks they should disclose the estimated future losses for stockholders. It is expected that SMM must bear a large amount of compensation for a long time in the future. Now, I pose a question why they have not been disclosed these important information publicly. The answer to the question is that more than 28% of their stocks have been hold by Sumitomo group companies. That is so-called MOCHIAI system in Japan. Therefore, it is not necessary for them to care of individual investors.

CONCLUSIONS

There are no concrete methods to assess business risks [2][3], especially damage from a nuclear accident. There are two issues, one is how to measure firms' holding risks, and another one is how to disclose possible future losses from such risks. Japanese managers should improve their attitude to disclose the risk information to the public more positively.

REFERENCES

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- [3] MacCrimmon & Wehrung, "Taking Risks" **The Management of Uncertainty** (1986), p.14.