

REPRISK CASE STUDY

Kobe Steel (Kobelco)

Kobelco falsifies data on its metal products

What happened?

On October 8, 2017, Kobe Steel admitted that it had falsified the inspection data on more than 20,000 tons of metals shipped from four of its Japan-based factories to customers in the automobile and aircraft industries, and confirmed that data falsification related to manufacturing specifications requested by clients, such as tensile strength, had affected about four percent of its output between September 2016 and August 2017.

In the days following the admission, Kobe Steel's shares fell by more than 30 percent on the Tokyo Stock Exchange.

By mid-October 2017, it was reported that Kobe Steel had also falsified data on aluminum and copper products that had been manufactured by the company's plants in China, Malaysia, and Thailand. Between April 2007 and August 2017, the metals were allegedly shipped with false certificates to around 500 customers, including companies in the automotive, aircraft, electronic, and railway sectors.

Kobe Steel's admission prompted several large companies to begin investigating whether the falsely certified materials had been used in their products and whether they posed a safety risk.

In the days following the admission, an independent investigation committee set up by Kobe Steel uncovered more than 70 cases of altered data in aluminum, copper and iron powder products as well as liquid crystal display (LCD) materials at the company's

Case Study Timeline

- 2013** Company admits it falsified records from two melting furnaces at a waste treatment plant in Hyogo Prefecture on the Japanese island of Honshu between October 2011 and August 2013.
- 2016** **June** Subsidiary is accused of misrepresenting strength of steel wires.
- 2017** **October** Company admits that it has falsified inspection data.
 - October 17** DOJ subpoenas documents from Kobe Steel relating to steel purchases by US customers.
 - October 18** EU Aviation Safety Agency advises against buying materials from Kobe Steel.
 - October 26** Kobe Steel sets up an independent investigation committee to probe scandal.
 - December** Kobe Steel admits that company directors were aware of the data falsification.
- 2018** **March 6** Kobe Steel CEO announces that he will resign on April 1, 2018.

Kobelco Research Institute. The investigation committee also exposed data falsification at several Kobe Steel subsidiaries in China, Thailand, and Japan.

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At the end of October, the Japanese government ordered an inspection of all certified Kobe Steel plants. The Ministry of Land, Infrastructure, Transport, and Tourism also began an inspection of Kobe Steel's Daian Plant after it was discovered that the plant had falsified data on products used in passenger aircraft, an admission that prompted the European Aviation Safety Agency to advise against buying materials from Kobe Steel.

In December, Kobe Steel conceded that senior officials in the company's copper and aluminum business had been aware of the data falsification.

In March 2018, Kobe Steel's independent investigation committee revealed that the company had begun to falsify data in the 1970s and had long-standing problems in compliance and corporate culture. The company also admitted that it had participated in bid-rigging for a bridge project in 2005, failed to report income in 2008, 2011 and 2013, and had violated pollution regulations and falsified soot emissions from its blast furnaces.

On March 6, 2018, the scandal forced the CEO of Kobe Steel to announce that he would be resigning on April 1, 2018.

Was it foreseeable?

RepRisk identified data falsification by Kobe Steel as early as October 2013, when a Kobe-based daily newspaper reported that Kobelco Eco-Solutions had falsified the concentration data on gas emissions at a river-basin sewerage and sludge treatment plant in the Hyogo Prefecture, located in the Kansai region of Japan's main island, Honshu. The company conceded that between October 2011 and August 2013, it had falsified 800 concentration records from two melting furnaces at the treatment plant.

Kobe Steel was again accused of falsifying data in June 2016, when a Chinese newspaper revealed that its subsidiary, Shinko Wire Stainless, had been misrepresenting the strength of its steel wires for nine years.

In August 2017, a tax inspection by the Osaka Regional Taxation Bureau uncovered an income deficit of approximately JPY 1.11 billion (USD 9.23 million) from the accounts of Kobe Steel for the three years

Kobe Steel's independent investigation committee revealed that the company had begun to falsify data in the 1970s, and had long-standing problems in compliance and corporate culture.

prior to March 2016. The company was fined JPY 270 million (USD 2.46 million) after admitting that it had "skimmed" JPY 10 million (USD 91, 250) through fictitious deals in an attempt to avoid tax payments.

Consequences for Kobe Steel

By March 2018, Kobe Steel admitted that 605 of its customers had been affected by the scandal. It is facing class action lawsuits in both Canada and the US, which accuse the company of lying about the safety of its products. Kobe Steel is also facing probes and potential fines from the US Justice Department (DOJ). Furthermore, it expects fines to be imposed in Japan, where the government revoked a seal of quality on some of the company's products.

On March 9, 2018, Kobe Steel appointed a new CEO, who will now have to try to restore credibility in the 112-year-old company.

Company Description

Kobe Steel Ltd (Kobelco) is a steel manufacturer with nine business segments: iron and steel, welding, aluminum and copper, machinery, resources and engineering, eco-solutions, construction materials, cranes, and others.

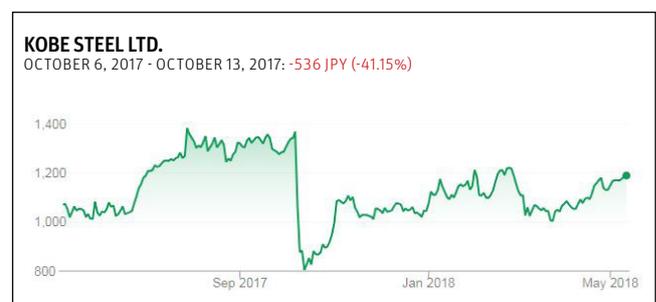


Figure 1: Between October 6, 2017 and October 13, 2017, Kobe Steel Ltd (Kobelco) share decreased by 41.15% from 1368 JPY (USD 12.45) to 805 JPY (USD 7.32) after it revealed the issue on October 8. Source: [Google Finance](#).