경영교육연구 제13권 제2호 2009년 11월

KEPCO PHILIPPINES' NUCLEAR POWER PLANT CASE

Philip Ella Juico*
Young-Kyu Park**
Dennis Berino***
Raul Ramos****

This is the case on KEPCO's decision to pursue the rehabilitation, operation, and maintenance of the Bataan Nuclear Plant(BNPP) in the Philippines. Although KEPCO already has profitable projects in the Philippines and has the capability to deliver this nuclear power plant project successfully, it will have to deal with complications arising from the controversial circumstances surrounding it. The analysis of the case focuses on two major interrelated goals: first how the company can allay the fears and misgivings of the smaller host community about nuclear power and second, preserving the country's dignity. Thus, the bid for this new project should demonstrate not only the competence and resources of KEPCO, but also a clear understanding of the social and ethical issues involved. This case will provide a valuable lesson that it is important to consider social and ethical factors to make a successful business in a foreign and rural environment.

Key Words: Corporate Social Responsibility, KEPCO, Nuclear Power Plant

Ⅰ. Introduction

Gil-Gu Lee, president and CEO of the Korea Electric Power Corporation(KEPCO) Philippines, is reviewing KEPCO's presence in the Philippines. Lee knows that the Philippines operations, now on their 10th year, have been financially rewarding, but he also wants to ensure that KEPCO does not overstay its current success.

Although KEPCO had lost out to a Japanese consortium in a bid to take over the operations and assets of a sizeable independent power producer, Mirant Corporation, Lee was aware of other investment opportunities in the Philippines. KEPCO's two operating projects have a total generating capacity of 1,850 megawatts (MW) and account for US$186 million in annual revenues. A third potentially profitable project, one that will generate 200 MW, is currently being constructed. Lately, KEPCO has been studying the possibility of making an offer to rehabilitate, operate,

논문접수일: 2009. 07. 17. 게재확정일: 2009. 09. 03.
* De La Salle University, Graduate School of Business, Manila, Philippines
** Corresponding Author, Sungkyunkwan University, Graduate School of Business Administration (ykpark@skku.ac.kr)
*** De La Salle University, Graduate School of Business, Manila, Philippines
**** De La Salle University, Graduate School of Business, Manila, Philippines

and maintain the Bataan Nuclear Power Plant(BNPP), long mothballed and hounded by controversy.

KEPCO Philippines' interest in BNPP reflects the direction its mother unit in Korea wants its Philippines subsidiary to take. A report by the Associated Press(AP) dated on November 5, 2007 said that a KEPCO official "has initiated talks with the Philippines government to reactivate the US$2.3 billion plant which was closed in 1987 without generating one watt of electricity." The report quotes Kyong Goo Hur, KEPCO director general for Asia business department (in Korea) as saying that "so far the talks have been unofficial and that the company has proposed conducting a study on the feasibility of the Bataan plant" or "the possibility of a new nuclear plant." AP said that the plant, including the reactor, was still intact, but that the nuclear technology had become outdated and that debt repayment on the plant had become the country's single biggest obligation.

Another report, from the International Atomic Energy Agency (IAEA), dated December 13, 2007 said that it would send in late January 2008 a mission to Manila to assess whether the 620 MW mothballed plant, built by Westinghouse in the 1980s could be reactivated. The nuclear plant was 90% ready to load fuel when it was scrapped amid safety concerns and corruption allegations.

Rehabilitating the nuclear plant or building a new one, the IAEA report said, could cost as much as US$1.3 billion and take five years. It added that Dr. Alumanda M. de la Rosa, head of the Philippine Nuclear Research Institute(PNRI), had said that it would take "a decade to prepare" for the operation, citing, for one thing, the training of engineers to run the plant and the regulatory staff to oversee its construction and operation." She also was reported to have said that consultations with a fully informed public were needed before any decisions were taken and that "this may be the most important factor to consider."

Dr. Carlito R.Aleta, a former IAEA official and now Philippine science attaché to Vienna, believes that "it is safe to operate the nuclear plant again and provided rehabilitation and upgrading are done to meet current regulatory requirements."

Now, the IAEA says the Philippine government has yet to decide on whether to operate a nuclear plant or give it to private firms. A bill has been filed in Congress to establish an independent regulatory body to oversee the construction and operation, if ever that option is taken.

As the man on the ground, so to speak, Lee believes that all his moves should be in consonance with KEPCO's corporate vision "to be a world-renowned total energy provider by 2015." KEPCO takes pride that in Korea, it ranks number one among semi-government-owned companies in overall performance and also in the Korea Customer Satisfaction Index (KCSI) among Korean public companies for six consecutive years. In addition, KEPCO

has been repeatedly cited by the government for its anti-corruption programs, good international credit rating, and continuous expansion of overseas businesses.

II. Background

2.1 KEPCO's History

The first electric light in Korea was lit in the Geoncheong Royal Palace in 1887. Electric power sparked the creation of industries, from small shops to big factories. In 1898, Korea's first electric company, Hansung Electric Company, was established. In 1961, the three regional electric companies, namely Chosun, Kyungsung, and Namum merged, giving birth to the nationwide Korea Electric Company (KECO).

In August 1982, KECO was renamed Korea Electric Power Corporation(KEPCO) and became a government-owned corporation. Seven years later, KEPCO was listed in the Korea Stock Exchange with 2% of its capitalization offered to the public.

As Korea was still in the rebuilding stage after the Korean War in the 1950s, its electricity requirements steadily increased and was projected to reach 10 gigawatts(GW) by 1987. This necessitated the construction in 1978 of the first Kori Nuclear Power Plant Unit I, with a capacity of 587 MW. In 1957, Korea became a member nation of the IAEA.

The Kori Nuclear Unit I, now operated by a KEPCO subsidiary, the Korea Hydro Nuclear Power Ltd, has 19 reactors generating a total of 16,700 kilowatts, the world's largest nuclear capacity. Five more nuclear reactors are being constructed with a combined capacity of 5,000 MW.

After more than 45 years of existence, KEPCO is confident of its place in economic development and looks with enthusiasm to further growth opportunities. A company brochure describing KEPCO's vast empire states that it consists of power generation companies, subsidiaries, affiliates, and other share-holding companies. The company proclaims that "under the shared vision for establishing a globally-renowned total energy provider, all employees combine their efforts to provide customers streamlined power supply through seamless cooperation, productive competition, and technology innovation."

2.2 The Global Nuclear Power Plant Scenario

According to published reports, the world's installed nuclear capacity had risen relatively quickly since the 1950s. But from 1980 the rate of increase had slowed, reaching 366 GW in 2005, purportedly due to the additional nuclear capacity built in China. The period between 1970 and 1980 saw an additional 50 GW of capacity installed.

A number of factors conspired to further slow the growth of nuclear capacity in the 1980s. Prominent among these were opposition

from environmentalists, high interest rates, more aggressive global energy conservation measures triggered by the energy crisis in 1979, the Three Mile Island accident in the United States, and the 1992 Chernobyl disaster in the then Union of Soviet Socialist Republics (USSR).

In 1983, declining fossil fuel prices discouraged new investments in nuclear power plants. In addition, electricity liberalization in the United States and Europe during the 1980s and 1990s cast doubragen the financial 19ability of nuclear power. Close to 70% of e tonuclear plants planned to be built n ter January 1979 were owerequently cancelled.

According to IAEA, the share of nuclear power in the world's electricity production by 2020 is projected to increase to 17%. It predicts 60 new plants to be installed over the next 15 years.

In the 1980s, various movements against nuclear power sprouted and gained strength in various parts of the world due to fears of both a possible nuclear accident and latent radiation. The accidents at Three Mile Island in 1979 and at Chernobyl in 1986 played significant roles in stopping new plant construction and starting nuclear power phase-outs in several countries. Phase-outs usually include shutting down of nuclear power plants and looking for other fuels or alternative energy.

Proponents of nuclear power, including some national governments, however, emphasize that the risks associated with nuclear power plants are small and can further be lessened with new technology. They note that (i) France and all of the industrialized economies of Asia see nuclear power as a key economic strategy, (ii) the safety record is good compared with other energy forms, (iii) it causes less pollution than coal power, and (iv) it is sustainable, even renewable, energy.

For some countries, having nuclear power capability is a statement of energy independence and enhances their sense of energy security. The French are said to be very conscious of this as revealed in their statement, "we have no coal, we have no oil, we have no gas, we have no choice." For such countries, any discussion of a future for nuclear energy is intertwined with a discussion of energy security and use of energy mix, including renewable energy development.

2.3 The Philippine Nuclear Power Plant Scenario

The Philippine nuclear program started in 1958 with the creation of the Philippine Atomic Energy Commission (PAEC) under Republic Act 2067.

Ferdinand Marcos was elected president in 1965 and ruled the Philippines until February 25, 1986 when he was overthrown in "People Power" demonstration that installed Corazon C. Aquino, widow of Marcos's assassinated archrival, Bengino S. Aquino Jr.

During the Marcos presidency, power generation came under the supervision and control of

the National Power Corporation (NAPOCOR), a government agency. NAPOCOR was in turn dependent on distributors like the Manila Electric Company (MERALCO). As the country's power requirement surged, so did oil prices, which fueled a large portion of the power generating units. The Marcos government then conceived the Philippines' first nuclear power plant in Bataan province, about 100 kilometers (60 miles) northwest of Manila, the capital. For the plant, a 3.57 square kilometer area of government reservation was planned at Napot Point in the town of Morong.

Under martial rule, Marcos announced in July 1973 his decision to build a nuclear power plant, in response to a Middle East oil embargo that had put a strain on the Philippine economy. Marcos believed a nuclear plant would help lower the Philippines' energy rates and attract foreign investors, one of whose specific objections had to do precisely with high energy costs. The BNPP construction began in 1976 and was completed in 1984 for US$2.3 billion, four times the initial estimate of US$600 million. Using a Westinghouse light water reactor, it was designed to produce 621 megawatts of power. Critics of Marcos's authoritarian rule insisted that the BNPP had been built under an atmosphere of corruption and repression.

The construction had been suspended following the 1979 Three Mile Island accident, and a subsequent safety investigation of the plant revealed over 4,000 defects. It was built near a major earthquake fault line and too close to the dormant Mount Pinatubo (which in fact erupted in June 1991, claiming hundreds of lives and destroying million of dollars worth of property). Activist Corazon Valdez-Fabros wrote that the popular response to BNPP was the formation in 1981 of the Nuclear Free Philippines Coalition (NFPC), which was to become the campaign center for all opposition to BNPP. NFPC's main task was to stop the construction of BNPP.

The alleged anomalous transactions surrounding BNPP prompted the well-known and respected nationalist senator Lorenzo Tanada to say on August 6, 1983: "Mr. Marcos and his nuclear advisers may well be long remembered for having put up the most expensive and dangerous nuclear power plant in the world, thereby saddling present and future generations of Filipinos with enormous foreign loans." Lengthy and comprehensive investigations conducted by the administration of President Aquino showed unmistakable signs of overpricing, kickbacks, and technical defects. Days after the April 1986 Chrenobyl disaster and in response to the vigorous opposition in the country and of Bataan residents to the BNPP operations, President Aquino decided not to operate the facility. However, to avoid the ire of Washington and the Philippines getting listed as an international pariah, Aquino decided to honor the loan commitment of about US$1.02 billion to the US Export-Import Bank that financed the project over the objections of some Filipino activists who

were for the outright repudiation of the loan, which was termed "odious" by Probe International. As a result, Filipino taxpayers had to bear the burden of paying more than US$170,000 in daily interest alone. The principal itself accounted for at least 5% of the country's total debt.

The loan had been fully paid by April 2007. Filemon Condino, head of the fiscal planning and assessment division of the Philippines' Bureau of Treasury was quoted to have said, "The final payment of US$15 million was settled in April (2007). It's now officially off the books. Today, it is just a big white elephant."

Aside from the discovered defects, many Filipinos opposed BNPP's operation due to memories of the April 1986 Chernobyl nuclear meltdown in the Ukraine, then a Soviet satellite state. The fire resulting from the nuclear accident sent a highly radioactive fallout plume into the atmosphere that drifted over the western Soviet Union, Western Europe, and eastern North America. Seven years earlier, in 1979, a similar accident had happened at Three Mile Island in Pennsylvania, U.S. This meltdown was relatively milder as the containment vessel for the nuclear fuel did not burst, as it did at Chernobyl; hence, the damage was controlled. Anti-nuclear activists argued that if such disasters could happen in developed and supposedly nuclear-savvy countries like the U.S, it could very well happen in the Philippines, which practically had little experience in handling nuclear power.

Valdez-Fabros said the Philippine government's decision to mothball BNPP was a victory for the people of Bataan. The anti-BNPP coalition said the plant, indeed, stood as a monument to man's folly, pride, and refusal to admit a mistake.

In 1987, Aquino transformed the Philippine Atomic Energy Commission into the PNRI through Executive Order (EO) 128. PNRI was mandated to "promote and regulate peaceful uses of nuclear energy, including its application in power generation, agriculture, medicine and others." BNPP has remained idle notwithstanding three changes in government administration since Aquino's six-year term ended on June 30, 1992.

With the ouster of Marcos, the BNPP which was supplied by Westinghouse and brokered by Marcos's "cronies" was not able to produce a single wattage of electricity; yet, the Filipino people had to pay for its huge cost. Comments had been made that the "Filipino people paid one nuclear plant for the price of three." It was also said that, with the continued mothballing of BNPP, the eight-hour a day power outages in March 1992 could not be avoided.

To alleviate the problem, independent power producers (IPP) were invited by the government of Fidel V. Ramos, who had become the 12th president in July 1992. The IPPs were to provide electricity to the power-starved economy on a build-operate-transfer (BOT) scheme. Old power plants were put up for

bidding for rehabilitation. It was in this moment of great need that KEPCO entered the Philippine picture.

On May 12, 1995, President Fidel V. Ramos, Aquino's candidate in the May election, signed Executive Order 243, titled the "Comprehensive Nuclear Power Program for the Philippines 2000". The order signaled the intention of the government to go full-scale into a nuclear program that would set up not just one but several nuclear power plants. The order mandated an inter-agency committee to conduct a nationwide information campaign on the supposed advantages of nuclear power, to identify nuclear waste storage facilities, and to study problems and issues related to nuclear plant operations. The nuclear development plan considered three timetables:

(1) Short-term optional approach, 1994-1998: Operate BNPP within three years after regulatory upgrades.
(2) Medium-term approach, 1994-2005: BNPP would not be reactivated. Nuclear power could supply about 5,000 MW as part of the required 9,600 MW base load in the power development program.
(3) Long-term approach, 2005-2020: Produce about 25,000 MW electricity from nuclear power by 2020, when total demand would be 52,000 MW.

The entry of the Korean power industry was widely thought a natural continuation of the close fraternal ties established between the Philippines and Korea when Filipino soldiers fought alongside Korean and American soldiers against Communist China and Chinese-backed North Korean troops in the early 1950s.

In 2004, President Gloria Macapagal-Arroyo outlined her energy policy. It included plans to convert BNPP into a gas-powered facility. The idea was scrapped, however, because it would come out more expensive compared to building a new power plant using conventional energy. There is also news that the Philippine Department of Energy and the Tokyo Electric Power Company have plans of setting up a nuclear power plant in the country.

III. KEPCO's Philippine Operation

3.1 KEPCO Philippines' (KEPHIL)

The 650-MW Malaya Coal Fired power plant in Pilillia, Rizal was bid out by the Philippine government to international contractors under a rehabilitation, operation, maintenance, and management (ROMM) scheme. KEPCO won the bid in May 1995; thus, the Malaya power plant became its first overseas camject. Although already de-rated when KEPCO Philippines (KEPHIL) took over, KEPCO was able to rehabilitate the 20-year-old plant 10 months ahead of schedule, and brought it back to its original rated generation capacity

of 650 MW at lesser costs than building a new 220 MW power plant.

3.2 KEPCO Ilijan Corporation (KEILCO)

The second project of KEPCO in the Philippines was a BOT deal for the 1,200 MW Ilijan Project in Batangas. KEPCO established the KEPCO Ilijan Corporation (KEILCO) to implement the project. Considered one of the top 12 power plants in the world, KEILCO is designed to use the natural gas generated from Palawan. The plant became operational on September 12, 1997. The 501 Mitsubishi gas turbines used in the plant are considered state-of-the-art, with the highest efficiency ratings among all the industrial gas turbines in the world. Mitsubishi Corporation, Mirant Corporation, and Kyushu Corporation are co-owners of the US$500 million project.

The success of this project encouraged KEILCO to consider expanding the plant by another 600 MW to fill up the expected power shortage in Luzon in 2010 and 2011. To date, KEPCO's Malaya and Ilijan projects make up 16% of Luzon Island's installed generation capacity or 12% of the Philippines installed generation capacity.

As the island of Cebu, in southern Philippines, continues to progress, power shortages are expected to take place. Recognizing this opportunity, KEPCO has bought 40% of the equity of Salcon Power Corporation, which owns the 203.8 MW Naga power plant complex in Cebu. A 200 MW circulating fluidized bed combustion (CFBC) power plant will be put up under a build-operate-own scheme. This power plant, budgeted at US$250 million, is expected to bolster the development of industries and employment in Cebu.

Ⅳ. KEPCO's Corporate Social Responsibility(CSR) Commitments and Practices

4.1 KEPCO's Worldwide Social Commitments

KEPCO has strong commitments to social service activities. In the past, KEPCO's social service activities were conducted at corporate level. These activities include looking for lost children, visitations to institutions for the elderly, assistance to young family heads and many more. KEPCO employees are also encouraged to participate in social activities on voluntary basis. Recently, KEPCO referred social service activities as "the third management" and launched 'Social Service Teams' to integrate and upgrade their corporate and employee level social activities. KEPCO's social service team works with the slogan of 'Light to the World and Love for the Neighbors'. This shows that KEPCO is committed to the local neighborhood where the company has business operations. Their major activities include followings.

The Voluntary Donations Program (Love Fund): Of its workforce, 7,800 make regular voluntary contributions to a fund which is then matched by KEPCO. The money is spent to help the needy in various places.

The Sisterhood Relationship program: Each business group in the KEPCO establishes sisterhood relationships with rural villages. KEPCO checks the electric infrastructure of the rural town's public facilities as well as the dwellings of aged or people with handicaps. Furthermore, KEPCO employees help in the homes of elderly people living alone. They also provide extra hands to farmers during planting and harvest seasons.

The Voluntary Group for Health Management: KEPCO provides health management support to the neighbors living under the impoverished conditions. Doctors and nurses accompany KEPCO's volunteer social workers and conduct medical service to the elderly living alone or living in remote regions.

The Ethical Management Commitment: The company has an anti-corruption team that has revised ways of making contracts: KEPCO has introduced a reward system for so-called "whistle-blowers", who report corrupt practices by employees and executives.

4.2 Environmental Aspect

As an electric power company, KEPCO tries to take social responsibility through environment friendly management. For this purpose, KEPCO follows international level of environmental rules and regulations and has a firm policy to reduce the environmental load and promote recycling. It emphasizes to construct and operate facilities that can harmonize with regional community and consistently pay attention to reduce greenhouse gas discharged indirectly during electricity use.

In Philippines, KEPCO has instituted the pollution safeguards in the Malaya plant by putting up a wastewater treatment and a rehabilitated tank to prevent oil spills. It has also put in place a smoke-density indicator, oil-water separator, a sound arrestor, and a multi-cyclone dust collector. While it uses natural gas, the cleanest of all fossil fuels, the Ilijan power plant has a continuous emission monitoring system to ensure protection of the atmosphere.

Tree planting is also undertaken in Ilijan in coordination with the local government and non-government organizations.

A coastal and water clean-up program is undertaken monthly in *barangay* Ilijan by KEPCO employees and stakeholders.

4.3 Social Aspect

KEPCO takes active part in social responsibility as a company to grow with community and people. The company tries to enhance corporate image as a company that love and help local community and people. Their social commitment and activities are well developed and coordinated by special organization called 'Social Service Team' as introduced in the above.

In Philippine, KEPCO gives scholarships to deserving youths of the community; A skills-for-employment training program designed to train out-of-school youth has been launched in the *barangays* where they operate. There are about 37,000 *barangays* in the 7,100 islands of the Philippine archipelago. The barangay is the lowest and smallest political unit of governance. Its population ranges from 3,000 in the remotest rural areas to 40,000 in densely populated cities.

KEPCO also dispatches taekwondo masters to train Filipino youths in this ancient Korean martial arts.

A team of medical and dental volunteers goes around the barangays..

KEPCO also has launched the Adopt-A-Barangay (Adopt-A-Village) project. A joint project with the Philippine government, this project seeks to bring electricity to the remotest areas in the Philippines. A total of 202 villages have been lit by KEPCO, in cooperation with the various electric cooperatives.

4.4 Economic Aspect

KEPCO's socially responsible activities extend to help rural communities to increase their income and living conditions. This is made possible through direct or indirect economic assistance. The company tries to purchase the agricultural products from local communities where KEPCO operates and even help them to increase production output. Sisterhood relation between each business group in KEPCO and one rural village mentioned in the beginning of this chapter is a good example.

Various residential cooperatives have been put by KEPCO Philippines to improve the living conditions of the people in the host communities.

Giant-clam-seeding in Ilijan is also undertaken to attract more fish, consequently increasing the income of those who live off the ocean. This is teaching how to catch fish rather than giving the fish.

As Gil-Gu Lee reviews the projects, he also wonders how KEPCO can still better serve the needs of the host communities and get their acceptance if it takes over BNPP operations.

Ⅴ. Conclusion:

Surely, KEPCO understands that the attempt to use nuclear energy and to operate a nuclear power plant in the Philippines failed for reasons both technical and political. Like the Three Mile Island and Chernobyl, the two most notorious cases of nuclear-plant disasters, the Bataan Nuclear Power Plant lies on a fault-line. Safety was the main technical reason why the Aquino Administration mothballed it. But there was also the attendant corruption of the whole deal, the great wave of public opinion against it, and the "people power" government's critical view

of the plant..

In the end, while the country may need nuclear energy to support its efforts toward industrialization, and while technically, nuclear energy creation can be safely possible, it cannot happen without public acceptance.

The whole BNPP episode should be very instructive. KEPCO should learn from it and not reinvent the wheel. The analytical framework will also help facilitate that learning process.

References

ABS-CBN Interactive (2007), RP pays off nuclear power plant after 30 years.

AFP Staff Writers Manila (2007), South Korean firm exploring nuclear power plant in Philippines, Space Daily.

Scott, W.R. (2003), Organizations: Rational, natural and open systems, Upper Saddle River, NJ, Prentice Hall.

Velasquez, M. (2006), Business ethics: concepts and cases, 6th edition, Upper Saddle River, NJ, Pearson Education.

Wise News (1998), The Bataan Nuclear Power Plant: The continuing struggle for a nuclear-free Philippine.

한국전력(KEPCO)의 필립핀 원자력발전소 인수사례

필립 엘라 주이코* · 박영규** · 데니스 베리노*** · 라울 라모스****

요 약

이 사례는 한국전력의 필립핀 바탄 원자력 발전소 인수 과정에서 대두된 기업의 사회적책임 문제를 다루고 있다. 한국전력은 일찍이 필립핀에 진출, 성공적으로 발전사업을 수행해 왔지만 바탄 지역의 원자력 발전소 인수는 그 간의 발전소 사업과는 다른 특수한 문제를 안고 있다. 첫째, 바탄 발전소는 대규모 원자력 발전소이기 때문에 지역사회와 주민들이 원전에 대한 두려움과 거부감을 갖고 있으며, 둘째, 과거 바탄 발전소 사업추진과정에서 있었던 정치적 부패행위로 인해 국민들이 바탄 발전소에 대해 부정적인 이미지를 갖고 있다. 따라서 한국전력은 발전소의 인수와 재가동에 앞서서 이러한 지역사회의 거부감이나 부정적인 이미지를 해소해야 하는 과제를 안고 있으며, 이는 한국전력이 해당 지역사회 및 필립핀 국민들에게 사회적 책임을 수행하는 기업으로써 인정받을 때 달성될 수 있다. 따라서 이 사례는 해외진출기업의 성공에 있어서 사회적 책임과 봉사의 중요성을 학습하는 데 목적을 두고 있다.

주제어: 한국전력, 기업의 사회적책임, 현지진출, 원자력발전, 필립핀

* De La Salle University, Graduate School of Business, Manila, Philippines
** 교신저자, 성균관대학교 경영전문대학원 (ykpark@skku.ac.kr)
*** De La Salle University, Graduate School of Business, Manila, Philippines
**** De La Salle University, Graduate School of Business, Manila, Philippines

〈Teaching Note〉

KEPCO PHILIPPINES' NUCLEAR POWER PLANT CASE

1. Case Synopsis

This case study opens with KEPCO Philippines' president having to decide whether to bid for the rehabilitation, operation, and maintenance of the Bataan Nuclear Plant (BNPP) in the Philippines. KEPCO has two existing profitable projects in the Philippines and a third in prospect. There is no question about the company's capability to deliver on its commitments; in fact, its track record shows that it delivers ahead of schedule and does work of unquestioned quality. Moreover, KEPCO is no stranger to nuclear power plant projects: it has undertaken such projects in a number of countries; for instance, it built, and has been operating Korea's first nuclear plant, and now one of the world's biggest.

In the case of BNPP, however, KEPCO will have to deal with complications arising from the controversial circumstances surrounding it: The plant was built 30 years ago, during the martial-law administration of Ferdinand Marcos, and has been mothballed by the succeeding presidencies of Corazon C. Aquino, Fidel V. Ramos, Joseph Estrada, and Gloria Macapagal-Arroyo. Still, considerable opportunities for both business and community service present themselves: For its growing power requirements, the country depends almost totally on imported oil whose price has been skyrocketing - a chief reason for the Philippines having the highest electricity costs in the region.

To help improve the economic conditions in the host communities, KEPCO has constantly undertaken philanthropic projects in the *barangay* (villages), where they operate in the Philippines, to help improve the condition of the local communities. But the BNNP deal is bound to be testier than probably any other project the company has so far taken up, given not only the controversy clouding the old deal but also the widespread apprehension raised by the very idea of harnessing nuclear power.

2. Teaching point & Assignment Questions

Given the facts of the case and the background materials, the management problem to be addressed is: What course of action is to be

taken with respect to the opportunity offered by the rehabilitation, operation, and maintenance of the controversial BNPP and nuclear power? Analysis of the case should revolve around the business prospects of further boosting KEPCO revenues while at the same time aligning itself with the economic development goals of the Philippines. These economic development goals include lower electricity costs for the broader community, job creation and social responsibility for the smaller, immediate community that will host the project, and consequently the enhancement of human dignity.

Therefore, the bid for the project should not only demonstrate the well-known and acknowledged competence and resources of KEPCO. Given the controversial history of BNPP in particular and nuclear power in general, the analysis should also clearly show its understanding of the ethical issues involved. - It is presumed that KEPCO has done the necessary due diligence: project viability, including researching on whether BNPP can be operated as a nuclear plant or as a coal- or gas-powered plant; the projects technical and safety aspects; the intricacies of doing business; and public opinion.

The guide questions based on Manuel Velasquez's book, *Business Ethics* should be useful for ethical analysis, and should be used with general case analysis questions - questions about being proactive through inspiring community acceptance for KEPCO even as early as the bidding stage.

The Velasquez framework follows:

A. Identifying the basic facts of the case

1. What is the situation/action/behavior/policy/institution under consideration in deciding whether to bid or not to bid?
2. Who are the stakeholders (those who are affected by, or can be affected by the situation - the major stakeholders are the Filipino people, the local and national officials, the church groups, militant organizations, and people in the host community)? What are their moral rights involved?
3. Who are the managers or individuals with moral responsibility over the situation? What are their responsibilities and duties? - The national officials also need to ensure that the country's power requirements are met. The local officials likewise need to ensure that proper precautions are taken to protect their citizens and native culture and customs are respected at the same time. Local officials should also ensure that a business environment is created in which the investors are not stymied.
4. What is the decision or objective? - It is to win the contract, of course, but to ensure as well that the bid is (a) consistent with KEPCO's vision to be a world-renowned total energy provider by 2015, and (b) to guarantee that KEPCO could correct the defects in the

plant to the satisfaction of not only the government but also a broad cross-section of society.

5. What are the alternative courses of action? – Three should make for a fair range: (a) mount a massive trust and confidence-centered information campaign about the benefits of operating the plant and KEPCO's capability to operate the plant safely. (b) relocate the immediately affected community (a rather costly course); and (c) discontinue bidding.

B. Ethical analysis for judgment for each of the three alternatives.

Alternative 1: Undertake a massive information campaign. Whatever valid claims it makes, KEPCO should be forthright with the local stakeholders about the dangers posed by a nuclear plant, and what it can do and cannot do about it.

6. What are the benefits and harm to each stakeholder? – Does the undertaking, to the extent possible, maximize the social benefits and minimize social burdens/injuries/harm? Campaign points: (a) to a large extent, BNPP will meet the growing power requirements of the country and (b) the host community will also benefit in terms of employment and its multiplier effects; but it is also expected to suffer the most in the event of a disaster.
7. How does the undertaking square with the moral duties of those undertaking the project and the moral rights of those affected by it? – As long as KEPCO fairly distributes the benefits from the operation and is perceived to be doing everything to avoid an accident, the moral requirements should be satisfied.
8. Does that constitute a just distribution of benefits and burdens? Are the weak and marginalized properly protected? – The main beneficiaries are the Filipino people in general and the residents of the host community in particular.
9. Does the undertaking reflect appropriate care for the well-being of those most affected by the operation? – Being transparent and providing projects that will improve the condition of the people in the host community are signs that the company cares.
10. Does it promote human dignity and the common good or is it consistent with promoting total human development and preserving a quality community life for all? Being truthful will show that KEPCO respects the life and dignity of the people in the community.
11. Will it portray a virtuous operator this time as against the dubious one before? Indeed, the idea is to make the people trust KEPCO with the power plant.

Alternative 2: Relocate the community. Not only is the alternative very costly; it is arguable, in fact doubtful, that in the event

of a major disaster, the damage can be contained in one specific area. Chernobyl is a terrifying lesson.

6. In any case, under this alternative, KEPCO can build a model community. This move may lessen but not eliminate the danger.
7. Yet, the alternative is consistent with the moral rights of potential victims; it allows the company to more than adequately discharge its moral duties.
8. Also, it does lead to a just distribution of benefits and burdens. The revenues to be earned by KEPCO will be also shared with the community; with relocation, the company gains peace of mind and support for its development, apart from meeting the need for power.
9. KEPCO will thus be perceived as a caring, trustworthy, and capable operator of BNPP.

Alternative 3: Do not bid.

6. This non-action keeps the status quo. While it creates no new problems for KEPCO, neither does it create new opportunities or bring KEPCO closer to the attainment of its corporate vision.

C. Decision for action

12. What is your recommended course of action? What is the urgency? What will be the result of inaction?
13. How can you, as a manager, exercise appropriate management and leadership in this situation?

3. Analysis

KEPCO should combine alternatives 1 and 2. Even as it prepares to bid, KEPCO should take a proactive approach and begin an information campaign designed to promote its competence, credibility, and its caring attitude towards both the broader and the smaller, immediate communities.

Furthermore, an attempt should be made to craft the framework (no specifics needed) of a CSR program. The answers to the 13 questions listed above could provide clues to the direction of the proposed CSR program. On the corporate level, these should be more on initiatives, becoming more specific for each country of operation. For the Philippines, it should be so designed to attract public sympathy and soften the negative impressions about nuclear power plants.

Another issue that should be addressed is to deal with the intricacies of doing business in the Philippines, such as those experienced by companies like Fraport AG of Germany. The student must be made to realize that these challenges are not unique to the Philippines or to a developing country. A company like KEPCO, eager as it is to expand overseas, should be aware of this. Dealing

with these problems costs; therefore, provisions should be made accordingly in the financial plans for a realistic feasibility study.

The student should take note that, with foreign investors and operators, projects the size of BNPP requires dealings at various levels and with various people. First on the totem-pole are national government officials who make the policies who can, and do, change the rules in midstream. Another stakeholder are local government officials under whose jurisdiction the project site falls (provincial governor, town or city mayor, councilmen, and even *barangay* or village council chairperson) and the concerned district representatives in the national congress. Then there are the environmentalists, the church groups, the media, and other civic organizations. All these can contribute to the success or failure of the project.