

OLYMPUS: PAYING A PRICE FOR DOING WHAT'S RIGHT?

Movies like *Silkwood* and *The Insider* have portrayed whistle-blowers as lone heroes on the front line or in middle management, working against corrupt organizations at great personal risk to their own wellbeing. At Olympus Corporation, the Japanese camera and medical equipment manufacturer, the story was dramatically different. The whistle-blower in this case was recently appointed Chief Executive Officer (CEO) Michael Woodford.

As the former head of both U.K. and U.S. operations for Olympus, Woodford's appointment as CEO in February 2011 was recognized as both the summation of a meteoric rise of a talented young executive, and as a sign that the insular corporate culture of "Japan, Inc." was finally changing. Woodford had benefitted greatly from the tutelage and mentorship of Olympus Chairman Tsuyoshi Kikukawa, which made the story of Woodford's first few months at the helm even more distressing.

As part of a regular review of Tokyo operations, Woodford began analyzing four separate acquisitions that Olympus had made between 2006 and 2009. Three of the four – a recycling company, a cosmetics company, and a food container company – had cost Olympus \$1 billion, but their assets had already been written down to just a fraction of that on the balance sheet, indicating that they were considered to be of no real value to the corporation. Further investigation revealed that all three companies were registered in the Caribbean tax haven Cayman Islands. In addition, all three companies were dissolved and closed shortly after being acquired by Olympus.

The fourth company – a U.K. based medical instruments company called Gyrus – was acquired for \$2.2 billion in 2008. The purchase included a \$687 million "transaction fee" to two investment bankers, with the funds going into a Cayman Islands account that was also closed shortly after the deal was concluded. Given that investment-

banking fees typically amount to only one percent of the transaction, a fee of almost thirty-three percent was suspicious enough to warrant an independent audit, which the Olympus Board had authorized in October 2009. The audit report subsequently declared that the company's directors had done nothing wrong.

In an October 11, 2011 memo to Kikukawa, Michael Woodford expressed his suspicions that a series of clear accounting irregularities had destroyed "\$1.3bn of shareholder value" in what he described as, "a catalogue of calamitous errors and exceptionally poor judgment." The memo concluded with a call for Kikukawa to resign as Chairman of Olympus Corporation. Three days later, Kikukawa and his Board of Directors responded by firing Woodford from his position as CEO.

Woodford's personal account of the days that followed his termination reads like a spy novel. Fearing for his life on the basis of a personal belief that the accounting scandal involved members of the *Yakuza* – the Japanese Mafia – Woodford left Japan for the UK very shortly afterwards. It was later reported that Woodford was able to provide sufficient evidence to warrant investigation into his claims by the FBI, Scotland Yard's Serious Crime Unit, and Tokyo's Securities and Exchange Surveillance Commission.

After weeks of denials – and a disconcerting silence among Japan's regulators and mainstream media – the company was forced to concede in the face of incontrovertible evidence that it had misappropriated funds in order to hide investment losses dating back to the 1990's. Public promises were made to introduce a new Corporate Governance Committee and to release five years worth of revised financial accounts. Kikukawa finally admitted to fraud and stepped down as Chairman of Olympus Corporation. He, along with two other Olympus executives, will face up to ten years in jail for his role in the scandal.

In June 2012, Olympus announced that its Board of Directors had approved a settlement offer with Woodford of 1.2 billion yen (\$15.4 million) for unfair dismissal, but the financial impact of the scandal may be far from over. The stock

price had plummeted by as much as 80% in the immediate post-scandal period, and in November 2012, the company announced that 48 mostly foreign institutional investors and pension funds had filed a lawsuit seeking 19.1 billion yen (\$240 million) in compensation for investment losses resulting from the revelation of accounting irregularities.

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