

The Olympus Scandal Explained

By Eren Arbac, February/7/2016

The world has just witnessed the largest scandal ever seen in Japan. It has sparked interest both locally in Japan, and worldwide. As this has impacted the global economy, this story has mattered to many business world readers, investors, and analysts. This issue goes back many years, having been hidden until 2011, when one man discovered and exposed a Japanese corporation's shady past.

What was the Olympus Scandal and how did it begin?

Olympus is a Japanese company that sells cameras, medical devices and other electronics globally. It is located in Tokyo, Japan and has become one of the largest industries of Japan. Specifically, Olympus' headquarters are based in the Shinjuku district which is the major commercial district of Tokyo.

The Olympus scandal was an accounting scandal revealed by Michael Woodford. The public would find out that Olympus had been using money to hide losses from poor investments. Wall Street has said this hidden scheme has turned out to be the biggest and longest hidden arrangement in Japanese corporate history. This has caused a controversy between two different sides. One side is Woodford, who argues against Kikukawa and other related members of the fraud as damaging the company. Kikukawa and other board members oppose Woodford, denying claims of fraud.



(Tokyo, Japan Google Maps)

The scandal was triggered in 1990, when Olympus had lost nearly 100 billion yen (730 million dollars) from investments. This was due to many different reasons including the Yen's value weakening at the time, as well as both poor and risky investments Olympus had made. In order to cover up these losses, a strategy was created by selling the losing investments at their former value.

Olympus then proceeded to purchase a handful of businesses with little value and no relation to the company in 2008. This was done to look as though the lost money had gone into purchasing new businesses. Olympus now had the ability to also store some of these losses in the accounts of the newly purchased businesses.

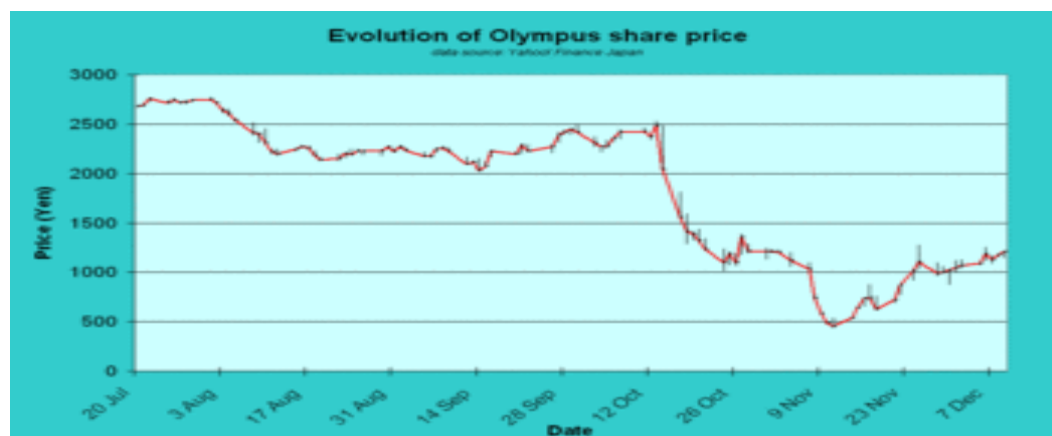
All of these actions were done to cover the losses and save the jobs of many board members such as former CEO Tsuyoshi Kikukawa, who started this fraud. These acquisitions were also done to avoid showing the losses to investment securities. Interestingly enough, these irregular and unethical payment methods were a common practise in Japanese business, and were termed as "tobashi schemes".

What is a tobashi scheme?

In Japanese, tobashi translates to "[flying away](#)" in English. This meant that losses could be hidden by transferring them from one account to another.

What was happening in Japan at the time:

In 2011, the Olympus corporation was financially doing well. The company's market capitalization (total values of a company's outstanding shares) was 673 billion yen and was experiencing a successful year. However, after countless speculation from the press and firing CEO Michael Woodford, this led to analysts downgrading the stock ratings of Olympus as [Bloomberg](#) states. Soon after Woodford was fired, he had unfolded Olympus' past hidden fraudulent actions. This caused the company's value to decrease to 422 billion yen according to [Bloomberg](#).



During this time which the major event of the Olympus controversy took place, there were also many other events which occurred. Japan had faced a major earthquake and tsunami which had affected the nation economically, socially and environmentally during the same year (2011). During this year, the hazard had caused 15,3000 fatalities and 8,300 missing according to local Japanese newspaper [The Japan Times](#).

How was the scandal exposed?

In 2011, Michael Woodford became chief executive of Olympus Corporation. He later began to investigate the company's past deals. During this period, he found many suspicious deals from 2008 and was told by colleagues that Olympus had made irregular payments after an article by FACTA suggested Olympus has hidden certain payments. Later, Woodford became concerned and asked chief executive Kikukawa about these payments. After Woodford started questioning Kikukawa and other board members about these acquisitions, Kikukawa realized Woodford was finding out about the hidden losses, leading him to fire Woodford.

Woodford soon exposed the details of the scandal led by Tsuyoshi Kikukawa to the PricewaterhouseCoopers (an auditing company), leading to an investigation. The fraud was then exposed publically, leading to the arrests and fines of Kikukawa and other former board members involved in the scandal.

Who is Woodford and what he believes?

As [Bloomberg](#) puts it, Michael Woodford is "the well-spoken middle aged Englishman. The gentleman had short, receding black hair, close-set eyes, and a generous round chin." He has worked for Olympus since 1981 and was promoted as Olympus CEO in 2011. It is during this time Woodford discovered a hidden side of Olympus which would earn him the whistleblower title.

From Woodford's side, the former CEO of Olympus argued that Olympus' board members should resign stating ["If they have an iota of care for the company then they should realize what the have done and give assurances they will resign in the near future"](#) He also mentioned how the scandal has impacted other people's lives with ["I just hope they understand the game is up and do the decent thing. stop damaging the company. Don't look for self-interest. look for the 45,000 people."](#)

In response to the fate of those at fault, Woodford's statements also relate to how the scandal caused chaos for all parties involved. This is developed with Woodford believing the guilty members and the current board of Olympus care more about themselves than the company. He believes that if the responsible members avoiding resignation, it will only continue to hurt the company's name and its 45,000 employees. This is a strong point made which plays on emotions of the public by mentioning the large innocent group of employees being affected.

Who is Kikukawa and what he argues?

Tsuyoshi Kikukawa is an elderly man who dresses formally in public. He is usually seen wearing a suit that is navy, grey or dark grey. As he is a old man, he has lost some hair and is balding. He does not have a lot of grey hair, only on the sides above his ears. He wears glasses and seems to have a calm and quiet nature.

Tsuyoshi Kikukawa was a former president and chief executive of Olympus who started the scandal in the 1990's. He denied allegations of hiding a large amount of Olympus' losses but was later found guilty for these actions.

Meanwhile, Kikukawa believed that Mr. Woodford was not suitable for Olympus. This is evident when Kikukawa stated ["Mr. Woodford's Western management style was not a good match for Olympus."](#) Kikukawa tried to represent Woodford as being in the wrong and devious.

This was a clear indication of how distraught Kikukawa had become since Woodford had exposed the company's shady history. It was also mentioned during the controversy that ["Mr. Kikukawa claimed during his trial that he engaged in the long-running scheme in order to protect the company."](#) As for the second claim, this is slightly more credible than the claim before as Kikukawa truly wanted what was best for the company at the time. This statement appeals to emotions of the audience, as he tries to get his audience to feel pity for him.

However, Kikukawa actions were not ethical and damaged the company's name more than it would have had he initially told the truth regarding the company's significant losses. Kikukawa did take responsibility in the end by stating that fraud ["destroyed the image of Japanese companies internationally"](#)

His last claim is valuable as Kikukawa finally admitted to how his actions affected not only how society views Olympus, but also the view of other Japanese companies globally.

Who is Takayama and what he says?

Shuichi Takayama has a similar physical appearance and outfit to Kikukawa. He is a bit younger than Kikukawa, around his 60's, and faces similar pressure as Kikukawa does. He also wears glasses, slightly balding, greying a little on the sides, and has a clean shave. His formal dress code is shown with either grey, or navy suits.

He was the CEO of Olympus after Kikukawa resigned in 2011. However, although he was not involved in the fraud, he had knowledge about it and kept it secret. This has led to Woodford demanding him to resign for hiding the company's past crimes.

In a conference after the scandal was exposed, Takayama tells the public:

-["It is a fact that we carried out inappropriate accounting"](#)

-["The company will continue its utmost effort to establish the truth of the case by the thorough provision of all information to the third party committee."](#)

-["The company would like to take this opportunity to sincerely offer our deepest apologies to its shareholders, investors, trading partners and other relevant parties for all inconvenience caused."](#)

These claims are all valid, as they show credibility as Takayama honestly admits to the company having done inappropriate accounting.

Additionally, this stakeholder successfully cites facts after admitting that the company has stated that these irregular acquisitions are a fact. Additionally, Takayama's apology to all the different organizations affected by this fraud, affects the audience emotionally. By specifically addressing each different business group, he gave a more personal, valuable and meaningful admission.

These statements are also similar to Kikukawa's, as they both accept the fact that fraud has occurred in the company, and that they recognize the damaging consequences of these actions and would like to apologize. However, Takayama's statements are different from the other stakeholders as he mentions how he plans to continue investigating the scandal.

What happened after the scandal?

Currently Olympus is facing a difficult time as the company tries to recover. [The stock price of Olympus fell by 20%](#) after the scandal was announced. Additionally, the company has to [pay a 700 million yen](#) fine for this fraud.

The current board members and CEO Takayama have now [resigned](#) after [apologizing](#) for the inconvenience the fraud has caused.

Meanwhile, Woodford has reached a [settlement](#) from this issue and has written a [book](#) about his experiences regarding Olympus' dark past and how he managed to expose this.

As for Kikukawa, the former Olympus CEO was found guilty of fraud, and is serving a sentence of [three years](#) in prison. His colleagues, Mr. Yamada also served for three years, and Mr. Mori for [two and a half years](#).



Kikukawa, 2011

Conclusion:

As for the future, other Japanese firms are suspected to be more covert about their financial spending after the recent news of Japan's largest scandal in history. However, this might lead to Japanese companies preventing illegal issues from happening, enforcing regulatory laws and check-up reports. In the end, this scandal could potentially lead to redeeming the reputation of Japanese companies internationally.