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# The Olympus scandal – The dark side of social networks and corporate culture

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TITLE: **The Olympus scandal – The dark side of social networks and corporate culture**

**Abstract**

**Purpose**-This study builds on the well-documented case of the Olympus scandal to dissect how social networks and corporate culture enabled corporate elites to commit fraud across multiple generations of leaders.

**Design/methodology/approach**-A flexible pattern matching approach was used to identify matches and mismatches between behavioural theory in corporate governance and the patterns observed in data from diverse sources.

**Findings**-The study applies the behavioural theory of corporate governance from different perspectives. Social networks and relationships were essential for the execution of the fraud and keeping it secret. The group of corporate elites actively created opportunities for committing misappropriation. Current research presents individuals committing embezzlement because the opportunity already exists, and they can enrich themselves. The group of insiders who committed the fraud elaborated the rationalizations to others and asked outside associates to help rationalise the activities, while usually individuals provide rationalizations to themselves only.

**Originality**-This study provides both perspectives on the fraud scandal: the one of the whistle-blowers, and the opposing side of the transgressors and their associates. The extant case studies on Olympus presented the timeframe of the scandal right after the exposure. The current study dissects the events during the fraud execution and presents the case in a neutral or a negative light.

**Practical implications**-The social processes among actors described in this case can inform the design of mechanisms to detect these behaviours in similar contexts.

**Key words:** social networks, corporate culture, behavioural theory of corporate governance, flexible pattern matching, Olympus case

**Article classification:** Case study

## 1. Introduction

The Olympus scandal was known as the "Japanese Enron"–as a result, significant changes had to be made in Japanese corporate governance and business circles. The lessons derived from this case are valuable to managers from other countries, who would like to conduct business in Japan, because it can make them aware of the contextual peculiarities. This study examines how social networks and corporate culture facilitated fraud in the Olympus Corporation across multiple generations of leaders. The case represents the Japanese corporate governance model and its pitfalls because it is based on peer-to-peer cooperation and subordination to superiors, instead of monitoring and control. Foreign shareholders suffered losses on the stock market after the exposure and exerted pressure for better monitoring and control of executives by boards of directors. They stated that the Japanese corporate governance system was not working as intended. In defence of Japan's business reputation, Prime Minister Noda voiced concern that the scandal might be regarded as a "symptomatic of wider problems of governance and regulation" but that this was not how Japanese businesses operated (Nakamoto and Dickie, 2011).

Another aspect of Japanese business life, which results from a lifelong career in a single workplace, is the forming of social networks (observed in and outside the organisation) that are maintained for a lifetime (Ahmadjian, 2000; Dore, 2003). The behavioural theory of corporate governance is suitable for this purpose because it highlights "socially situated agency", meaning that individual behaviour occurs amid social relationships, networks, and institutions that become contingent on this social context (Westphal and Zajac, 2013).

The Olympus fraud scandal has been subjected to many single and multiple case studies (Aronson, 2012; Elam *et al.*, 2014; Prusa, 2016) and teaching case studies (Morgan and Burnside, 2014). However, they have provided only Western perspectives on events because they were based only on Michael Woodford's book and eventually on the small number of newspaper articles citing the book or interviewing Woodford. This study provides the point of view of the transgressors and their associates, along with the whistle-blower's perspective. Previous studies focused on the scandal after the exposure. This study highlights events before the exposure‐at the times the fraud occurred‐and shows the case in a neutral or a negative light by providing both Western and Japanese perspectives. Sufficiency of data was achieved in the current research using diverse sources. The study used a flexible pattern matching approach (Sinkovics, 2018) to analyse data within an initial theoretical framework (King, 2014) by identifying matches and mismatches between elements of behavioural theory in corporate governance and the patterns observed in the data.

A new perspective on the elements of the behavioural theory of corporate governance is enabled by the findings. Outsider associates used helping behaviour by advising to company insiders engaged in unlawful corporate behaviour. The Olympus insiders involved in the fraud and the outside associates implemented positive norms of reciprocity by helping each other for over 20 years. Social learning mechanisms show how the new foreign president failed to learn corporate and national (Japanese) norms. The contrast with extant literature is most clear because there were Japanese who openly opposed others and disclosed the improper behaviour by those in a position of authority.

The plan for this study is straightforward: first, the author presents the extant theory. Second, an explanation study method and design follows. Third, the study provides analysis on different levels according to the periods (phases) of the fraud. Fourth, a discussion on the different perspectives of the study follows, and the author draws conclusions.

## 2. Theory and expected general patterns

### *2. 1. Behavioural theory in corporate governance*

Behavioural theory in corporate governance (Westphal and Zajac, 2013) shows how corporate elite and board directors collaborate to enhance one another's career progress and company performance. Corporate leaders also regulate how the company is represented by the media and on the financial market with different social dynamics for journalists and financial analysts. Behavioural theory in corporate governance is appropriate for researching Japanese corporate governance because social networks, dynamics, and collaboration are the main specifics of the Japanese corporate world (Dore, 2003).

The first dimension includes tactics for social influence (ingratiation and impression management), which concerns different social dynamics between board members (Westphal *et al.*, 2012) aiming at career progress and keeping their position on the board. Other varieties of social influence are symbolic management (Elsbach, 2003) and flattery and opinion conformity (Stern and Westphal, 2010) among board members (Westphal and Stern, 2006, 2007) or corporate elite and external constituents such as journalists (Bednar, 2012; Dyck and Zingales, 2002; Westphal and Zajac, 2013).

Another dimension of the behavioural theory of corporate governance, which is used in strategic challenges, is the variety of forms of cooperation and helping behaviour that can be observed among corporate elite and directors (Westphal, 1999; Westphal and Zajac, 2013). Another aspect of these dynamics is seen in CEOs providing social support (moral support and informational support, based on their own experience) to other CEOs experiencing personal problems (McDonald and Westphal, 2011).

The third dimension is social learning, where directors learn about corporate policies and decision-making processes while monitoring management decision-making or participating in it (Westphal and Zajac, 2013).

The fourth dimension is norms of reciprocity, which are positive or negative. Positive norms of reciprocity (as impression management support) can vary: direct reciprocity–when a CEO provides support to another CEO who had helped him/her in the past; chain generalised reciprocity–one CEO had received support in the past and now provides support to a third CEO; and social indirect reciprocity–a CEO helps other CEOs who had supported someone else in the past. There are also negative and generalised forms of reciprocity, such as generalised retaliation and withdrawal of support among corporate leaders and firm constituents (Westphal and Zajac, 2013).

*2.2. Social networks and relationships in cases of fraud*

In this study, Westphal and Zajac's (2013) four categories of social processes are used to describe socially situated agency in connection to fraud because situational factors (conditions of pressure, opportunity, or predisposition/motivation) can lead to illegality, whether intentional or unintentional (Baucus, 1994).

Working environment pressure is the first dimension of corporate illegality (Baucus, 1994). Violations are also partially products of social pressure formed by community attitudes and government (Lane, 1953). People often embark on criminal behaviour through social influence processes, which also operate with rational cost–benefit analyses, shaping the outcome of these calculations and assessments (Palmer and Maher, 2006). Fraudulent practices and techniques spread among transgressors (Baker and Faulkner, 2004), and the interaction/collusion among them is essential (Pinto *et al.,* 2008). Granovetter (1985) argued that behaviour is closely intertwined in networks of interpersonal relations. The role of relationships matters in unethical behaviour, and one should consider not only 'bad apples'/corrupt individuals and 'bad barrels'/corrupt organisations (Brass *et al.*, 1998; Kish-Gephart *et al.*, 2010; Sims and Brinkmann, 2003) or 'bad orchards'/corrupt industries (Linstead et al. 2014: 166) but also the relationships among the 'apples' (Brass *et al.*, 1998). Pinto *et al.* (2008) distinguished between an organisation of corrupt individuals, where members of the organisation act corruptly for their own benefit, and a corrupt organisation, in which case the group engages in illegality for the benefit of the company. In the latter's case, the time needed for it to manifest is relatively brief, with one or more victims of illegal acts outside the organisation (Pinto *et al.*, 2008).

Opportunity to conduct fraud is the second dimension of corporate illegality (Baucus, 1994) which is created by a social network. Secret accounting practices and social interactions around these practices are implemented through criminal networks (Neu *et al.*, 2013). Social networks include individuals and groups within (internal) but also outside (external to) the organisation (Brass *et al.,* 1998; Pinto *et al.,* 2008). Criminal activities such as corruption and large-scale corporate fraud depend on and are organised around the premise of secrecy (Neu *et al.,* 2013); Organisational wrongdoers face a challenge in remaining undetected and coordinating the corrupt network (Aven, 2015). An illegal network's structure is driven mainly by the need to secure secrecy, then efficiency (Baker and Faulkner, 1993). In addition, top executives' social ties facilitate the involvement of their firms in government corruption, and executives rationalise that this is a common means of doing business (Collins *et al.*, 2009).

Rationalisation/motivation is the third dimension of the corporate illegality (Baucus, 1994). One reason for continuing a fraud is that the transgressors believe that if they stop their fraudulent activity, there will be a higher probability of being caught (Baer, 2008). The ‘dark side of organisations’ is characterised by a gang culture and a gang leader (Stein and Pinto, 2011) who engage in or tolerate deviant behaviour (Litzky *et al.*, 2006). Provided that motivation for personal gain is a very important feature of corruption, any other form of illegal misconduct without personal gain cannot be identified as corruption (Luo, 2005). This is the case of unethical pro-organisational behaviour, which is conducted by employees to potentially benefit the organisation (Umphress *et al.*, 2010; Umphress and Bingham, 2011). Most studies on unethical pro-organisational behaviour have been centred on high organisational identification and its correlation with the dark side of positive social exchange relationships (Umphress and Bingham, 2011), as a precursor to unethical pro-organisational behaviour in cases of high levels of positive reciprocity belief (Umphress *et al.*, 2010), or as encouragement through a mechanism of moral disengagement (Chen *et al.*, 2016). Other aspects of unethical pro-organisational behaviour are social dynamics between managers and employees, such as a manager’s personal example, which encourages and rewards ethical behaviour from their employees (Umphress *et al.*, 2010).

## 3. Japanese corporate governance and culture

As mentioned, social networks and processes formed and maintained through long careers are a main feature of Japanese corporate governance. In the Japanese corporate world, the dimension of helping behaviour is firmly established, fostering an atmosphere of cooperation and collaboration (Dore, 2003, 2005, 2013). The system of ‘managerial autonomy’ means that managers must negotiate cooperation from other managers (Lazonick *et al.*, 1997) and consult many people in the chain of decision-making, which makes it difficult for real abuse to occur (Dore, 2010).

Amended: Corporate governance and cultural specifics in Japanese corporations encompass various elements of reciprocity norms. Their regulation is through internal corporate governance mechanisms‑peers in managerial positions and employees (Dore, 2003, 2005, 2013). Understanding the interests and priorities of different stakeholders is also essential for being a good manager in Japan (Berger and Dore, 2018), and the focus is on the fulfilment of duty rather than pursuing happiness (Lazonick *et al.*, 1997) or personal enrichment. Managers are held accountable by banks and other committed shareholders and by their peers and juniors within the firm (Lazonick *et al.*, 1997).

Positive norms of reciprocity are expected of everyone. Self-interest and opportunistic behaviour are prevented by Japanese ethnic and cultural homogeneity, so in an exchange relationship, there are expectations that people have obligations to others (Berger and Dore, 2018). The primary concern and obligation of top management and the board is to preserve the reputation of the community and the welfare of its members (Dore, 2010). The relationship between superiors and juniors is more dynamic than the peer-to-peer relationship; managers provide protection and show affection, while juniors repay them with dependence and loyalty (Nakane, 2016).

The dimension of social learning mechanisms is observable throughout careers‑social norms are passed constantly from seniors to juniors, from long-time employees to newcomers. In Japan, business relationships are personalised and are more like social relationships, involving social contracts and give-and-take long-term reciprocity (Dore and Whittaker, 2001). Correction 2: According to Nakane (2016), strong and functional ties between the leader and their immediate subordinates always stem from the informal structure. Senior management in Japanese companies, engaged in long-term business relations with each other, share information informally while participating in business associations, committees, and clubs rather than use public disclosure (Berger and Dore, 2018).

Japanese prefer to engage with other Japanese (Lazonick *et al.*, 1997) because their homogeneous backgrounds facilitate creating consensus-valuing individuals who avoid confrontation (Dore, 2010), and this integrates a flexible and loyal company workforce (McCormick and McCormick, 1996). Acceptance of foreigners emerges at different stages; initially, there is special attention, like parties in their honour, that shows that this person is still an outsider; once someone is accepted as an employee, their treatment is on an equal basis and they can be criticised for making mistakes, for example (Lo, 2016).

The dimension of pressure by the environment on the individual is reinforced daily. Japanese culture is characterised by a reluctance to oppose anyone openly; thus, employees do not expose the improper behaviour of someone in a position of authority (Lafayee De Mente, 2012; Morgan and Burnside, 2014). Autonomous and argumentative employees are the most unwelcome human resources in Japanese companies because they will want to change the status quo (Chikudate, 2002). Superiors symbolise authority and competence (Richet, 1999); they do not need to use assertive behaviour because hierarchy is well respected in Japanese organisations (Dore and Whittaker, 2001; Dore, 2011). Hierarchy can also co-exist with mutual respect and fellow feeling, which is usually seen as an aspect of equality (Dore, 2011).

In practice, groups can sustain and condone corrupt practices (McGregor, 2000). Japanese corporate governance is characterised by ‘insider control’ where boards of directors comprise lifetime employees and there is no effective external monitoring (Dore, 2010), which provides opportunities for the manifestation of fraudulent behaviour.

Providing rationalisations is also culturally justified because the Western understanding of right and wrong behaviour is based on a universal ethics code comprising unvarying principles; while for the Japanese it varies according to the circumstances, the time, the place, and the people involved (Morgan and Burnside, 2014; Lafayee De Mente’s, 2012). The network of support and the quality of management are more important in risk assessment in Japanese companies than the weighing of the balance sheet and its assets (Pascale and Rohlen, 1983).

**4. Methodology**

The author chose a single case study because this case is unique, with the fraud kept secret for over 20 years. It is also extreme because the amount of hidden losses was exceptional-US$1.7 billion. It is a longitudinal case-the author has studied the same case at different periods (phases) of the fraud (Yin, 2003).

The case study has an exploratory research design (Eisenhardt, 1989) with a ‘flexible pattern matching’ approach for matching theoretical and observational patterns (Sinkovics, 2018). The patterns that emerge from the collected data provide the basis for exploration and theory building (Eisenhardt, 1989). An initial analytical framework with expected dimensions/patterns is used to provide guidance and focus for the explorations (King, 2014; Sinkovics, 2018). The observed patterns of concepts and theories are compared with the existing literature (Sinkovics, 2018), and matches and mismatches are identified (Eisenhardt, 1989).

*4.1. Data collection*

An initial reading of Michael Woodford's book provided details about the case. In the next stage, information was collected from 169 newspaper articles and television interviews and from six press conferences with Woodford, which provided the negative Western point of view of the scandal. The data for the neutral side of the story were gathered from the Third Party Committee's report. The committee of a supreme court judge, six attorneys, and a certified public accountant (CPA), with the help of other attorneys and auditors, interviewed 189 individuals at different levels in the company, some of them retired. Other sources of information were legal documents for the court suit and additional investigation reports (*Investigation report of the director liability investigation committee to the board of auditors of Olympus corporation on the company's fraudulent scheme*; *Investigation report of the non-director management liability investigation committee to the board of directors of Olympus corporation on the company's fraudulent scheme*) to establish the facts. The study is also based on four books–the first two of them by the Japanese journalist who exposed the case in the magazine *Facta*, the third one by *Facta*'s editor, and the fourth one by *Facta* magazine's team. Another source was a documentary by the Japanese director Yamamoto (who earned a degree in New York), *Samurai and Idiots* (2015); Yamamoto kindly provided the author access to the film approximately 6 months before it was distributed. These sources were based on facts and provided both Japanese and Western perspectives.

The Japanese point of view was presented at two press conferences with the Olympus corporate elite and by company statements at the official Olympus website. An additional source was an interview with Michael Woodford by journalist Stephen Sackur (HardTalk, BBC World News) at the St. Gallen Symposium (Table I).

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Insert **Table I.** *Data collection* is about here.

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The data comprising 12 hours of video recordings and over 3,000 pages of written materials can be deemed sufficient to answer the research question from both neutral and negative perspectives.

*4.2. Data analysis*

The sources were integrated into the qualitative data analysis software NVivo 11 Pro as a textual, audio, and video database. The software was used to aid the coding and analysis of the text throughout the process. Video files were converted into audio files and then transcribed into text files with the aid of NVivo transcription. Since NVivo transcription provides only 80%-90% accuracy, the texts were proofread and corrected until 100% accuracy between the audio and written texts was reached.

Flexible pattern matching (Sinkovics, 2018) was used for coding the content of the above sources and analysing it. The content contained rivalling explanations, and flexible pattern matching between the expected pattern (derived from the literature) and the observed pattern in the data was employed (Sinkovics, 2018). Different elements of the behavioural theory of corporate governance provided the initial framework of analysis, which produced four conceptual building blocks (patterns) (Sinkovics, 2018). The first building block was "helping behaviour", which was explored through two dimensions: "forms of cooperation and helping behaviour" and "social support (moral and informational support, based on their own experience)". The study used an imbedded sub-building block in "helping behaviour" to provide the "situational factors‑conditions for conducting fraud". This utilised three additional dimensions:

"opportunity", "rationalisation", and "motivation". "Learning about corporate policies and decision-making processes" was the second dimension of the building block known as "social learning mechanisms". One dimension of the third building block, "mechanisms of social influence," was the "social dynamics between board members and external constituents." The fourth building block was "norms of reciprocity", which was divided into two‐"positive", with the dimension "positive norms of reciprocity", and "negative", with the dimension "negative norms of reciprocity".

Table II shows the organised data in the first column describing the framework (building block/patterns), the second providing the dimensions, and the third showing the expected patterns.

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Insert **Table II.** *Initial framework for analysis* about here.

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**5. Analysis**

*5.1. Failed corporate governance in the case of Olympus*

Olympus corporate governance was very well established, but it failed in its purpose. A single leader managed the organisation for a long period under strong leadership and did not allow objections. The 'tobashi' scheme did not leave any evidence‐all documents were destroyed after financial transfers were made. This method was difficult to detect even internally (Third Party Committee, 2011). The board of auditors and board of directors became mere formalities, as there were many 'yes-men' among the directors (Third Party Committee, 2011, pp.178-

180). Outside directors were not suitable‑most had a medical or technical background and could advise on operational matters or product development but could not fulfil a governance role.

With time and the changing of presidents, the environment changed as well, and the fraud became larger. The unethical corporate culture was passed from one generation of leaders to another with the help of the team involved (see Table III).

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Insert **Table III.** *Periodical distribution of events in Olympus Corporation* is about here.

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A good example of this is the situation in the second period of the fraud (Table III) when the previous president, Shimoyama, and Yamada from the finance division briefly informed the new president, Kishimoto, about the losses and how they were addressing the problem. The latter expressed his position (that they must be recovered), but he did not have a strategy on how to do so. He contacted security companies and experts but otherwise left the financial department to deal with it (Third Party Committee, 2011). In the mid-1990s, Yamada proposed that the investment losses be announced publicly, but Kishimoto answered: "We will wait, because the losses will decrease if the market recovers, and we can turn things around" (Third Party Committee, 2011, p.75).

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Insert **Table IV.** *Board of directors' reactions to misconduct and attempts at exposure* about here.

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Instead, the losses reached US$1.2 billion in the late 1990s. As a response, Toshiro Shimoyama (chairperson) and Masatoshi Kishimoto (president) instructed Hideo Yamada and Hisashi Mori from the finance division and Tsuyoshi Kikukawa from the accounting division to perform 'tobashi' (Japanese for 'fly away')-the illegal practice of moving loss-making investments off-shore and off the books (Yamamoto, 2015). In September 1998, they informed President Kishimoto about the fraudulent act, and he approved it (Third Party Committee, 2011).

The board of auditors was supposed to monitor managers' decisions and prevent misconduct, but, in Olympus, it was passive; it was not even mentioned in the otherwise rigorous *Investigation report*. The report summarises the reasons for this as a lack of independence and deficiencies in professional knowledge and experience. Yamada and Ota were the only two, among all those appointed as auditors for more than a decade (2000-2011), who had professional knowledge in finance and accounting (Third Party Committee, 2011). This meant that the people committing the fraud were the only ones who possessed the knowledge needed to expose it.

In March 2008, during a board of directors meeting, some directors expressed doubts about three domestic companies but did not voice them or else accepted the rationalisations made by Mori.

A good example of negative norms of reciprocity is how KPMG's auditing contract was ended when they voiced concerns. In December 2008, KPMG expressed concerns to the board of auditors that the three domestic companies' acquisition amounts (see below) were extremely high. KPMG said that it would be difficult for them to continue auditing Olympus (Third Party Committee, 2011). Subsequently, on May 21, 2009, Kikukawa and Yamada visited KPMG and unilaterally told them that "they would not be re-appointed as the auditing firm" after June 2009.

Olympus replaced them with Ernst & Young Shin Nihon LLC. KPMG issued a clear, unqualified opinion, upon the request of Ernst & Young, to act as auditors of Olympus from that moment onward (Third Party Committee, 2011, pp. 48; 67; 156; 165; 170; 183).[i] The stated reason was that they were "intervening in Olympus' business decisions" and "overstepping its [KPMG's] duties and meddling in management". The real reason was that KPMG had insisted that the board of auditors conduct an operational audit, and, when this did not show results, KPMG suggested that management, comprising Kikukawa, Yamada, and Mori, resign on grounds that "the governance at Olympus had become dysfunctional" (Third Party Committee, 2011, p.175).

*5.2. Social networks and relationships in cases of fraud*

Social networks with outside associates and relationships among insider transgressors were essential for the execution of the fraud and for the keeping of the secret. Early on, when they wanted to hide losses off the books ('tokkin'), Yamada contacted his old friend Akio Nakagawa and started doing business with the foreign brokerage where the latter worked. Yamada and Mori would continue working together closely for many years (Third Party Committee, 2011).

Later, when they wanted to execute 'tobashi' (moving losses off-shore and off-book), Yamada and Mori contacted several foreign and domestic brokerages but could not find an effective way to execute the fraud. They asked two individuals with whom they had worked before in investment activities‐Akio Nakagawa of Axes (Japan) Securities (a financial advisory firm) and Hajime Sagawa of Axes America‐to establish a 'tobashi'.

They used these outside associates to expand their network with other experts in fraudulent activities. In March 1998, Sagawa and Nakagawa established Tobashi Route 3 in the Cayman Islands. For the other two routes, Yamada and Mori used the helping behaviour of other old acquaintances. Nobumasa Yokoo of Global company, who advised them on investment activities, introduced them to senior executives at Liechtenstein Branch, LGT bank‑Tobashi Route 1. For Tobashi Route 2‑Singapore, Nakagawa introduced Yamada and Mori to Komerzbank, where they became close with Chan. Later, in 2000, Chan moved to Societe Generale, and Yamada and Mori changed banks so that they could continue working with him. They followed the principle of loyalty to their outside associates. Most important was maintaining relations and partnerships (as in the usual Japanese business world for lawful operations) but in fraud. They involved in their schemes only outside associates whom they trusted because of long-lasting relationships in connection to lawful activities.

The outside associates provided support during internal meetings as well. The illegal operations were kept secret, but the partnership with these associates was public, and they were part of the inner circle. Olympus formed a business investment committee and, at one of its meetings, Yokoo provided rationalisations about the potential of the businesses of three domestic companies which have nothing to do with their main business: Altis‑disposing and recycling of plastic infectious medical waste; Humalobo‑selling processed foods and News Chef – the development and sale of microwave cooking containers (Table V).

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Insert **Table V.** *Summary of the three domestic companies’ activities and the rationalisations provided by Yokoo at the Board of Directors meeting*s about here.

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Another example of this close partnership with outside associates was prolonging the fraud and to consult with other potential associates. To pay an inflated fee to the financial advisers for the Gyrus acquisition, Mori, with Sagawa, visited numerous offices of overseas financial advisers and legal advisers to conduct the work, along with Axes (Third Party Committee, 2011) (Appendix 2).

In May 2009, the board of auditors formed the ‘2009 Committee’, which comprised an attorney, a CPA, and a former university professor. They interviewed KPMG, Mori, and Olympus employees to investigate and review the transactions and fees. The documents that the committee checked did not show personal gain by the Olympus directors. The committee made rationalisations that Sagawa, who was a representative of Axes, had strong connections in the medical-related M&A field and that Olympus needed a financial adviser with such connections (Third Party Committee, 2011).

An outsider to the illegality, Michael Woodford suffered the same consequences as KPMG when he attempted to find answers to the uncomfortable questions he asked. The facts about the fraud became known to Woodford through an acquaintance, who sent him an article from the Japanese magazine *Facta*. An anonymous Olympus employee had leaked information to a freelance journalist Yamaguchi) who published it. Woodford attempted to get more information about the acquisitions in a series of meetings with Kikukawa and Mori, but without success. Kikukawa had instructed employees not to discuss the article with Woodford. Auditors and the board of directors would not provide him information because they considered him an outsider to these ‘internal matters’. Therefore, he turned to another external auditor–PwC, which he hired especially for that purpose (Woodford, 2012; Yamamoto, 2015; Third Party Committee, 2011).

Later, he was fired at the board meeting which was supposed to expose Kikukawa and Mori. He did not quit, instead made the scandal international by leaking information to *The Financial Times*.

Woodford could have used his close relationship with a former Olympus director, Koji Miyata, to help him stop the fraud and expose the people involved. Instead, Woodford waited until he was fired and then asked Miyata for support during the long process of exposure. There was a similar case in Japan in 1981, when the CEO of Mitsukoshi (a large department store chain known for its luxury goods) was fired by the board of directors, who were his own protegees (Yoshimura and Tomonaga, 2016). In that case, a group of the employees approached a second-generation legal adviser of the company and expressed their concerns about the CEO's authoritative and disorganized management style. The legal adviser, used at different stages of the preparations for the dismissal, helped employees in managerial positions share information with the media and use labour union representatives' influence and that of banks' main shareholders. When everything was ready, the directors voted for the CEO's dismissal unanimously (Yoshimura and Tomonaga, 2016). Unfortunately, Woodford requested Miyata's help, and Miyata used nearly all these elements: discussion with board members, media representation, shareholders' meetings, employees voting on a television show in his support, only after he had been fired.

Woodford understood the situation and the consequences of the financial misconduct much better than his Japanese colleagues on the board of directors and the board of auditors.

## 6. Discussion and conclusion

This case study examined how social networks and corporate culture helped a group of corporate elites in Olympus Corporation engage in fraud through several generations of leaders. While in the extant research, helping behaviour is usually associated with social support for personal problems (e.g., from one CEO to another; McDonald and Westphal, 2011), the present study shows outside associates advising for corporate illegality to solve organization's problems. Similarly, positive norms of reciprocity have been studied in situations where, for example, one executive helps another who had helped him/her in the past. This study shows a new perspective on positive norms of reciprocity among inside managers and outside associates: both sides helped each other for a period of over 20 years. We observed direct reciprocity from insider (Kikukawa) to outsider (Michael Woodford) who was the first foreigner to be promoted to a President and later to CEO of the 90-year-old company. Insiders also provided direct reciprocity to their outside associates. Close relationships were formed, marked by loyalty, and rewarded with incentives. There was the opposite case of outside associates who provided support to insiders by introducing them to other outside associates and provided diverse opportunities to solve their problems (Table VI and Appendix 3).

This case study highlighted new features to the element of opportunity. Extant literature shows that individual employee engages in fraud because there is an opportunity to enrich themselves (Baucus, 1994). In the Olympus, a group of corporate elites actively sought and created opportunities for each other as insiders, or among the groups of both insiders and outside associates. They claimed that this was for the sake of the company, as there was no personal financial gain.

In terms of rationalisation, the new feature is that the group of insiders, who committed the fraud, elaborated the rationalisations to others and asked outside associates to help them rationalise the activities to board directors. Usually, the person involved in fraud provides a rationalisation to themselves (Baucus, 1994).

New features of the element of motivation to commit fraud vary among actors: for insiders, there is indirect personal gain and protecting company's name and prestige; for outside associates, the motivation was to maintain close, long-lasting relationships with loyal clients, and personal and consultant company's financial gain. This provides new light of what is known in the extant literature individuals commit fraud for their direct personal enrichment, and the secret is kept on an individual level (Baucus, 1994).

Concerning social learning mechanisms, which are usually shown in new board members learning corporate and decision-making processes from members with longer tenure on the board (Westphal and Zajac, 2013), here the study describes a new foreign (Western) president's failure to learn corporate and national (Japanese) cultural norms.

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Insert **Table VI.** *Initial framework for analysis and observed patterns* about here.

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In Japan, people are categorised according to the principle of whether they are within or outside a group membership: "Once categorised as an in-group member, a person must live within the norm of the group" (Chikudate, 2002). There were differences in perceptions in the present case; from Woodford's point of view, he was an insider–a homegrown salaryman with 30 years' tenure in the company. Despite this, from a Japanese perspective, he was still an outsider, and Kikukawa reminded him this of. Kikukawa expected loyalty because he was Woodford's mentor and had promoted him from being a lower-level manager to the highest position in the company–president. Woodford, on the other side, highlighted that he had exposed fraud in different Olympus branches in Europe.

Direct confrontation and demanding explanation might have worked in the European cases of fraud, but, in the Japanese cultural setting, he should have used a different approach to achieve the same result. This aligns with Kim and Toh's (2019) findings that a leader's past cultural experience is very often applied in their new position, even when the workplaces are quite different.

Another example of negative norms of reciprocity was KPMG's dismissal as an outside auditor. Olympus stated that the reason was that KPMG had interfered with management decisions and had made an impolite comment (Third Party Committee, 2011).

Westphal and Zajac (2013) described mechanisms of social influence, such as ingratiation (at the CEO level) and opinion conformity, which led to positive outcomes for the actors who used them. The findings of the present study align with theirs concerning the insider team involved in the fraud and additionally describe the consequences for those who did not follow these principles–Michael Woodford and KPMG.

This is shown more clearly with negative norms of reciprocity and their elements of generalised retaliation and withdrawal of support (Westphal and Zajac, 2013), as was observed with Woodford and KPMG in their interactions with Kikukawa and the team engaged in the fraud. Indeed, "Japanese managers have turned against foreign executives who they feel have wronged them or are incompetent" (Morgan and Burnside, 2014; Lafayett De Mente, 2012).

The treatment of KPMG is an exemplary situation showing the mechanisms of social influence and of norms of reciprocity. KPMG gave several signals and attempted to influence changes, but their opinion was not taken into consideration, and their contract was not renewed. Woodford applied diverse social influence mechanisms by discussing the matter with Kikukawa and Mori and with other top managers and board directors. This shows that the Olympus board of directors did not comply with international corporate governance rules nor with professional standards, which the KPMG attempted to apply in this situation.

An unlawful network' s structure is driven not so much by the need to optimise efficiency but by the need to keep concealment to the maximum (Baker and Faulkner, 1993). This study contributes to extant literature by showing how the inside transgressors gradually included different people from the executive team and extended the circle of external associates. In the different periods of the fraud, they wanted to maximize efficiency by using different schemes to conceal the misconduct.

Pinto *et al.* (2008) discussed that with a corrupt organisation, one or more victims exist outside the organisation and that the time required for the misconduct to manifest is relatively short. However, in the Olympus, there were no victims outside the organisation during the fraud; shareholders suffered losses only after the exposure. Another difference is that the misconduct continued for almost 20 years, with the transgressors passing it on from one leader to another (three generations of leaders).

The extant literature shows that bad morality in corporate leaders is explained by personal ambition and greed; they break the rules to maximise personal gain (Sims and Birnkmann, 2003). In the Olympus, the rule-breaking was conducted for the sake of the company. This contrasts with other studies where such behaviour is explained by the employees' belief that they will be awarded for engaging in illegal activities (Baucus, 1994; Umphress *et al.*, 2010). Those who participated in the fraud claimed that they did so for the benefit of the company and enjoyed no direct personal gain. However, critical analysis shows that they made financial gains indirectly by obtaining promotions, which lead to a higher salary and better benefits, higher bonuses, a pension, prestige, influence, etc. The outside associates gained financially (indirectly) as well by maintaining long-lasting, close relationships with loyal clients (e.g., the insiders followed them when the outside associates moved from one company to another). This led to personal financial gain by receiving a percentage of the deals and bonuses for high performance. Their consultant company also enjoyed a financial gain as financial advisory fees.

The extant literature suggests that continuing in fraud for a longer period can be explained because those involved believe that if they stop their fraudulent activity, there will be a higher probability of being caught (Baer, 2008). In contrast, the present study found that the wrongdoers continued the fraud because the problem was increasing, and they had to find different ways to address it. They stopped after two decades because they thought the problem was solved and well hidden. The findings of this case study align understanding that reasons for acting unlawfully can be found in social influence processes (Palmer and Maher, 2006), in social pressure from community attitudes and the government (Lane, 1953), or in the explanation that it is a common means of doing business (Collins *et al.,* 2009). The board of directors themselves mentioned that these types of practices were common among Japanese companies.

The cultural aspect might be one reason for the occurrence of this corporate illegality (Lafayee De Mente, 2012; Morgan and Burnside, 2014). However, this study noted that there were Japanese who openly opposed others and who disclosed improper behaviour by those in a position of authority. This was not a Japanese company fraud, but an internationally organised scheme which occurred worldwide. The insider Japanese team were the recipients of these international advisers' services.

This study has limitations. First, it was conducted at the organisational level and explored how certain groups in the organisation interacted among each other or with outside associates. In the future, it can be conducted at a macro level to describe the impact exposure of the Olympus had at the institutional level in Japan and how the corporate governance code changed following these events. Debates on a mixed model of corporate governance and implementation of a three-committee system are examples of this process of change. Aronson (2012) conducted such a study from a law perspective; it can be done from a management research perspective. A case study through an international business research lens can also show the impact of this case on foreign investment in the country, for example. The study was performed in a Japanese corporate governance setting; other types of governance and cultural settings might provide a different perspective on the results.

The study was conducted on only one company as a single case study. It can be conducted as a multiple case study. The names of other Japanese companies with recent cases of fraud are well known‑Mitsubishi, Toyota, Toshiba, Kansai Electric. Companies from throughout the world (Volkswagen, for example) can easily be found in the biannual report of the Association of Certified Fraud Examiners. The report is detailed, and the cases can be arranged by the type of fraud, transgressors, countries, etc. Software (Factiva) can find sources quickly and easily, instead of checking the press and other media sources manually.

**Table I. Data collection**

| No | Types of sources | Source | Number of sources | Number of pages / hours of recording | Perspective | |
|---|---|---|---|---|---|---|
| | | | | | Japanese / Western | Negative / Neutral |
| 1 | Investigation report by a supreme court judge, six attorneys, and a CPA who, with the help of other attorneys and auditors, interviewed 189 individuals at different levels in the company, some of them retired | Third Party Committee's *Investigation report* | 1 | 850 pages | Japanese | Neutral / Negative |
| 2 | Other investigation reports | *1. Investigation report of the director liability*<br>*2. Investigation committee to the board of auditors of Olympus Corporation on the company's fraudulent scheme*<br>*3. Investigation report of the non-director management liability*<br>*4. Investigation committee to the board of directors of Olympus Corporation on the company's fraudulent scheme* | 4 | between 150 and 350 pages per each report | Japanese | Neutral / Negative |

| No | Types of sources | Source | Number of sources | Number of pages / hours of recording | Perspective | |
|---|---|---|---|---|---|---|
| | | | | | **Japanese / Western** | **Negative / Neutral** |
| 3 | Legal documents for the court suit | *Lloyd vs. Olympus* | 1 | 650 pages | Western | Negative / Neutral |
| 4 | Company statements | Official Olympus website | 20 | between 3 and 12 pages (each source) | Japanese | Neutral and Negative |
| 5 | Book | Woodford, 2012 | 1 | 350 pages | Western | Negative |
| 6 | Books | Yamaguchi (the Japanese journalist who initially exposed the case in *Facta*) and *Facta*'s editor | 4 | approximately 150-250 pages per book | Japanese | Neutral / Negative |
| 7 | Newspaper articles and transcripts of TV interviews | *Financial Times*, *Bloomberg*, *Guardian*, among others | 169 | average 3-5 pages per article | Western | Negative |
| 8 | Newspaper articles and transcripts of TV interviews | *Asahi shinbun*, *Mainichi shinbun*, *Japanese Times*, among others | | | Japanese | Neutral |
| 9 | Newspaper articles and transcripts of TV interviews | *Facta* (magazine) | 2 | average 3-5 pages per article | Japanese | Negative |
| 10 | Interview with Michael Woodford | Journalist Stephen Sackur (HardTalk, BBC World News) at St. Gallen Symposium | 1 | 1 hour | Japanese and Western | Neutral |

| No | Types of sources | Source | Number of sources | Number of pages / hours of recording | Perspective | |
|---|---|---|---|---|---|---|
| | | | | | Japanese / Western | Negative / Neutral |
| 11 | Press conferences with Woodford | Associated Press and others | 6 | average 1.5 hours per press conference | Western | Negative |
| 12 | Press conferences with Olympus corporate elite | Olympus | 2 | 2.5 hours | Japanese | Neutral |
| 13 | Documentary film | *Samurai and Idiots* (Yamamoto, 2015) | 1 | 1.5 hours | Japanese and Western | Neutral |

*Detailed database is available upon request.

(Table by author)

**Table II.** Initial framework for analysis

| Framework<br>Behavioural theory in corporate governance (Westphal and Zajac, 2013) | Dimension | Expected pattern | Pattern |
|---|---|---|---|
| **Helping behaviour** | Forms of cooperation and helping behaviour (Westphal, 1999; Westphal and Zajac, 2013) | **present** | Cooperation and helping behaviour among corporate elites and board directors are essential for successfully fulfilling board duties (Westphal, 1999; Westphal and Zajac, 2013). |
| | Social support (moral support and informational support, based on their own experience) (McDonald and Westphal, 2011) | **present** | Social support provided by CEOs to other CEOs who are experiencing personal problems (McDonald and Westphal, 2011) |
| **Fraud triangle (Baucus, 1994)** | Opportunity (Baucus, 1994) | **present** | Individual employee engages in fraud for personal gain because there is an opportunity to do so (Baucus, 1994) |
| | Rationalisation (Baucus, 1994) | **present** | The individual who commits the fraud rationalises it to him/herself (Baucus, 1994) |
| | Motivation (Baucus, 1994) | **present** | The employee commits fraud for his/her personal financial gain, and the secret is kept at the individual level (Baucus, 1994) |

| Framework | | Dimension | Expected pattern | Pattern |
|---|---|---|---|---|
| **Behavioural theory in corporate governance (Westphal and Zajac, 2013)** | | | | |
| **Social learning mechanisms** | | Learning about board duties and corporate world (Westphal and Zajac, 2013) | **present** | Board directors interacting with other board directors learn about corporate policies and decision-making processes while monitoring management decision-making or participating in it (Westphal and Zajac, 2013) |
| **Mechanisms of social influence** | | Social dynamics between board members or external constituents (e.g., journalists or financial analysts) (Elsbach, 2003; Stern and Westphal, 2010; Westphal *et al.*, 2012) | **present** | 1. Ingratiation and impression management (Westphal *et al.*, 2012)<br>2. Symbolic management (Elsbach, 2003)<br>3. Flattery and opinion conformity (Stern and Westphal, 2010) |
| **Norms of reciprocity** | ***Positive*** | Positive norms of reciprocity as impression management support (Westphal and Zajac, 2013) | **present** | 1. Direct reciprocity–when a CEO provides support to another CEO who helped him in the past (Westphal and Zajac, 2013)<br>2. Chain generalised reciprocity–one CEO received support in the past and now provides support to a third CEO (Westphal and Zajac, 2013)<br>3. Social indirect reciprocity–a CEO helps other CEOs who supported someone else in the past (Westphal and Zajac, 2013) |
| | ***Negative*** | Negative and generalised forms of reciprocity (Westphal and Zajac, 2013) | **present** | 1. Generalised retaliation (Westphal and Zajac, 2013)<br>2. Withdrawal of support among corporate leaders and firm constituents (Westphal and Zajac, 2013) |

(Table by author)

**Table III.** Periodical distribution of events in Olympus Corporation

| Period | First period | | Second period | Third period | Fourth period |
|---|---|---|---|---|---|
| | 1984-1993 | | 1993-2001 | 2001-2008 | 2008-2011 |
| Olympus Corporation president | Toshiro Shimoyama | | Masatoshi Kishimoto | Tsuyoshi Kikukawa | |
| Economic state in Japan during the period | Plaza Accord, 1985; bubble economy, 1989; profits dropped among export-dependent Japanese companies* | Black Monday, October 19th, 1987, the Tokyo Stock Exchange crashes | Many companies and banks went bankrupt | N/A | 2008, World Financial Crisis (2008), Nikkei Stock Average hits the lowest level since the bubble–6,994 yen |
| Olympus situation | Olympus net profit in 1985, 80 million yen, dropped to 36 million yen in 1986 | Olympus losses, US$140 Million | Olympus losses in the early 90s, US$550 million; in the late 90s, US$1.2 billion | Losses US$1.2 billion | Losses US$670 million |
| Solution | Investing in financial products, buying stocks, bonds, and other assets | "tokkin" - to hide losses off the books | 'to-ba-shi', Japanese for 'fly-away': the illegal practice of moving loss-making investments off-shore and off the books | Loss-bearing funds, acquiring companies at minimal valuation cost and selling them to Olympus at an inflated price | Paying an inflated fee to financial advisers for the Gyrus acquisition |
| Elements of fraud | N/A | N/A | Tobashi Route 1, Liechtenstein Branch, LGT | Altis | N/A |
| | | | Tobashi Route 2, Singapore, Societe Generale and Komerzbank | News Chef | |

| Period | | | First period | | Second period | Third period | Fourth period |
|---|---|---|---|---|---|---|---|
| | | | 1984-1993 | | 1993-2001 | 2001-2008 | 2008-2011 |
| Olympus Corporation president | | | Toshiro Shimoyama | | Masatoshi Kishimoto | Tsuyoshi Kikukawa | |
| | | | | | Tobashi Route 3, Cayman Islands | Hamlin | |
| Hidden/cleared losses | | | N/A | N/A | Hidden losses US$1.2 billion | Cleared losses US$550 million | Cleared losses US$670 million |
| | | | | | | Total losses cleared US$1.2 billion | |
| Main actors in the scheme | Insiders | Chair | N/A | N/A | Toshiro Shimoyama | N/A | N/A |
| | | President | | Toshiro Shimoyama | Masatoshi Kishimoto | Tsuyoshi Kikukawa | Tsuyoshi Kikukawa |
| | | Finance division | | Masatoshi Kishimoto, Hideo Yamada, and Hisashi Mori | Hideo Yamada and Hisashi Mori | Hisashi Mori and Hideo Yamada | Hisashi Mori and Hideo Yamada |
| | | Accounting division | | N/A | Tsuyoshi Kikukawa | N/A | N/A |
| | Outside associates | Representatives of foreign brokerage | | Akio Nakagawa - Axes (Japan) Securities | Akio Nakagawa - Axes (Japan) Securities | Akio Nakagawa - Axes (Japan) Securities | Financial advisers and legal advisers |
| | | | | N/A | Hajime Sagawa - Axes America | Hajime Sagawa - Axes America | Hajime Sagawa - Axes America |
| | | | | N/A | Nobumasa Yokoo - Global company | Nobumasa Yokoo - Global company | N/A |
| | | Bank representatives | | N/A | Senior executives - Liechtenstein Branch, LGT bank | N/A | N/A |
| | | | | N/A | Chan - Komerzbank, later Societe Generale | N/A | N/A |

* Plaza Accord, 1985; orchestrated depreciation against the dollar leading to the bubble economy, 1989; Nikkei Stock Average record high 38,915 yen. (Table by author)

**Table IV.** Board of directors' reactions to misconduct and attempts of exposure

| **Period and corresponding event** | **Board of directors' response to the misconduct** | |
|---|---|---|
| 1984-1993: 'tokkin' - to hide losses off the books | "At the 508th board of managing directors' [a body within the BoD] meeting there were heated discussions about the response to the appreciation of the Yen, since it was directly connected to business" (Third Party Committee, 2011, p.137) | "In contrast, with respect to the posting of extraordinary losses, we were surprised by the amount. I believe someone asked if that was the full amount, but my memory is not certain. We did not think at all that there were further losses incurred, and I don't think there were very extensive questions" (Third Party Committee, 2011, p.137) |
| 1993-2001: to conduct 'to-ba-shi', Japanese for 'fly-away' (the illegal practice of moving loss-making investments off-shore and off the books) | "The 1990s were a period in which many large corporations were posting large losses from financial management techniques. So, when we received the report that a huge amount of extraordinary losses would be posted from failures in financial management techniques, we only thought that Olympus, similar to other corporations, had failures in its financial management technique, and did not think that it was such a problematic issue" (Third Party Committee, 2011: 137) | "I believe that there were questions raised by those who did not attend the board of Managing Directors' meeting as to why the extraordinary loss would be posted in the current period, and whether this was all for the processing of 'tokkin', but I do not think it was in an accusing or pursuing manner" (Third Party Committee, 2011: 138) |
| 2001-2008: a new scheme to completely eliminate losses – loss-bearing funds, acquiring three defunct companies at minimal valuation cost and selling them to Olympus at an inflated price | "There was an explanation that the shareholder would dispose the shares to others, so that a decision was necessary under timing, and it was quite a hurried story, and moreover it had to be a package of the three domestic companies. I had trust in Corporate (Mori), and that if our colleague Mori were to make such a statement, then it could not be helped" (Third Party Committee, 2011, p.45) | "I thought that the price was strange, and pointed it out, but according to Mori, they were aiming for listing, so that I thought it could be done, if done well" (Third Party Committee, 2011, p.45) |

| Period and corresponding event | Board of directors' response to the misconduct | |
|---|---|---|
| 2008-2011: a new scheme, paying an inflated fee to financial advisers for the Gyrus acquisition | "While there were active discussions regarding the acquisition price of Gyrus at the time of the board of directors resolution regarding the Gyrus acquisition on November 19, 2007, with respect to the FA [financial adviser] fee, which was set at 5% of the acquisition price, there was no awareness that it was high (otherwise, there is no memory that there were discussions about the FA fee). On the point that 15% of the FA fee would be cash compensation and the remaining 85% would be a stock option, with the explanation from Mori that this was to make the cash outlay small, no specific doubts were raised" (Third Party Committee, 2011: 143) | "The impression on Mori's side, who was the explainer of the agenda item, was that there were no directors who doubted the acquisition scheme, acquisition price, selection of the FA or its fee at said board of directors' meeting, and that there were no special discussions about the size of the FA [financial adviser] fee" (Third Party Committee, 2011, p.143) |
| 2008: KPMG replaced with Ernst & Young as external auditor | "There were no indications that any board director made attempts to ask questions about that matter" (Third Party Committee, 2011, p.156) | |
| 2011: Michael Woodford fired | [Michael Woodford]: "And before he [Mr. Kikukawa] had finished [reading the resolution stating that Woodford was fired and stripped of his titles], all the directors around the table pulled their hands up and physically, you know, pushing to the sky. And it reminded me children in a classroom. And I was watching this behaviour of these men, some of them I have known for 30 years, acting like that" (Yamamoto, 2015) | "Outside directors are there to provide an oversight and scrutiny of the Executive; however, when questioned about my dismissal in November, extraordinarily Dr. Hayashida had told Reuters: 'I do attend board meetings but I have no idea about their content. I only provide medical advice" (Woodford, 2012, p.203) |

(Table by author)

**Table V.** Summary of the three domestic companies' activities and the rationalisations provided by Yokoo at the board of directors' meeting (Table by author)

| **Company name** | **Company activity** | **Rationalisations given by Yokoo to explain why the company would be useful to Olympus and how they would supplement its main activity** |
|---|---|---|
| **Altis** | "Altis is a company involved in the business of disposing of and recycling plastic infectious medical waste (syringes, etc.). Used syringes that are discarded by medical institutions are put into the proprietary collection containers that the company manufactures and sells. After sterilising the collection containers by using sterilisation devices, they are transported to oil conversion plants and recycled into fuel oil and so forth" (Third Party Committee, 2011, pp.35-36) | "The main clients are medical institutions, and since Olympus has business relationships with many medical institutions through the endoscope business, etc. in which it holds a high share, these existing business relationships could be used to sell the company's business to medical institutions. Fast, high growth could be expected" (Third Party Committee, 2011, p.36) |
| **Hamlin** | "Humalabo is a company involved in the business of selling processed foods and so forth using shiitake mushroom mycelium culture extract. Shiitake mushroom mycelium culture extract is said to activate the immune system, have an anti-tumour effect, have an anti-viral effect, restore impaired liver function, have an anti-allergenic effect, etc." (Third Party Committee, 2011, pp.35-36) | "The health foods market is enormous, and the health foods that this company sells help liver function. Given that the market for those with impaired liver function is also large, in a broad sense, it is related to the medical businesses in which Olympus is involved" (Third Party Committee, 2011, p.36) |
| **News Chef** | "News Chef is a company involved in the development and sale of microwave cooking containers (light pressure containers) and in the sale of foods in a set with said containers. With these containers, it is possible to cook without a flame and with little oil" (Third Party Committee, 2011, pp.35-36) | "Because of the increase in the elderly population and double income households, the market for individual meals is growing. It is believed that demand for prepared foods will also grow, so using the microwave will contribute to health in terms of being able to cut the amount of oil. In a broad sense, this is related to the medical businesses in which Olympus is involved" (Third Party Committee, 2011, p.36) |

**Table VI.** Initial framework for analysis and observed patterns

| Framework<br>**Behavioural theory in corporate governance** | Dimension | Expected pattern / observed pattern | Expected pattern | Observed pattern |
|---|---|---|---|---|
| **Helping behaviour** | Forms of cooperation and helping behaviour (Westphal, 1999; Westphal and Zajac, 2013). | **present / present with new features** | Cooperation and helping behaviour among corporate elite and board directors in fulfilling board duties (Westphal, 1999; Westphal and Zajac, 2013). | Cooperation and helping behaviour among corporate elite and outside associates to aid company performance (engaged in fraud and kept it secret for two decades) |
| | Social support (moral support and informational support, based on their own experience in the past) (McDonald and Westphal, 2011) | **present / present with new features** | Social support by CEOs to other CEOs experiencing personal problems (McDonald and Westphal, 2011) | Social support among corporate elite and outside associates to aid company performance (engaged in fraud and kept it secret for two decades) |
| **Fraud triangle** | Opportunity (Baucus, 1994) | **present / present with new features** | Individual employee engages in fraud for personal gain because there is an opportunity to do so (Baucus, 1994) | Group of corporate elites actively sought and created opportunities<br>1. Creating opportunities among insiders and outside associates<br>2. Creating opportunities for insiders |

| Framework<br>**Behavioural theory in corporate governance** | Dimension | Expected pattern / observed pattern | Expected pattern | Observed pattern |
|---|---|---|---|---|
| | Rationalisation (Baucus, 1994) | **present / present with new features** | The person who commits the fraud provides a rationalisation to him/herself (Baucus, 1994) | The group of people who committed the fraud provided rationalisations to others and asked outside associates to help them provide rationalisations<br>1. Providing rationalisations among insiders and outside associates (provide ideas for rationalisations to board members)<br>2. Providing rationalisations to insiders (explain the rationalisations in board meetings) |
| | Motivation (Baucus, 1994) | **present / present with new features** | The individual commits fraud for his/her personal financial gain, and the secret is kept at the individual/personal level (Baucus, 1994) | 1. Motivation to commit fraud for insiders: personal gain (promotion, which leads to higher salary and better benefits, higher bonuses, pension, prestige, influence, etc.) and protecting company's name and prestige<br>2. Motivation to commit fraud for outside associates: maintain close, long-lasting relationships with loyal clients (the insiders followed them when the associates changed companies); personal (commission, bonuses for high performance) and consultant company financial gain (financial advisory fee) |

| **Framework**<br>**Behavioural theory in corporate governance** | **Dimension** | **Expected pattern / observed pattern** | **Expected pattern** | **Observed pattern** |
|---|---|---|---|---|
| **Social learning mechanisms** | Learning about board duties and corporate world (Westphal and Zajac, 2013) | **present / present** | Directors interacting with other directors learn about corporate policies and decision-making processes while monitoring management decision-making or participating in it (Westphal and Zajac, 2013) | 1. Newcomers learn from experienced board members with longer tenure<br>2. Foreign CEO learning from Japanese directors about corporate and national (Japanese) cultural norms |
| **Mechanisms of social influence** | Social dynamics between board members or external constituents (e.g., journalists or financial analysts) (Elsbach, 2003; Stern and Westphal, 2010; Westphal *et al.*, 2012) | **present / present partially** | 1. Ingratiation and impression management (Westphal *et al.*, 2012)<br>2. Symbolic management (Elsbach, 2003)<br>3. Flattery and opinion conformity (Stern and Westphal, 2010) | 1. Symbolic management - exerting pressure as an outsider on Japanese insiders (exerting pressure and demands for explanations and changes in the status quo, which led to negative outcomes)<br>2. Symbolic management - Japanese insiders exerting pressure on a foreigner (pretending that the problem does not exist; humiliation and undermining in public) |
| **Norms of reciprocity**<br>***Positive*** | Positive norms of reciprocity as impression management support (Westphal and Zajac, 2013) | **present / present partially** | 1. Direct reciprocity: when a CEO provides support to another CEO who had helped him in the past (Westphal and Zajac, 2013)<br>2. Chain generalised reciprocity: one CEO received support in the past and now provides support to another CEO (Westphal and Zajac, | 1. Direct reciprocity from insiders to foreigner outsider (Michael Woodford): promoted him to CEO besides president, which gave him ultimate executive power<br>2. Direct reciprocity from insiders to outside associates: loyal and long-lasting close relations along with all incentives, which this provides<br>3. Direct reciprocity from outside associates to |

| Framework | | Dimension | Expected pattern / observed pattern | Expected pattern | Observed pattern |
|---|---|---|---|---|---|
| **Behavioural theory in corporate governance** | | | | | |
| | | | | 2013)<br>3. Social indirect reciprocity: a CEO helps another CEO who had supported someone else in the past (Westphal and Zajac, 2013) | insiders: introduced them to other outside associates and provided diverse opportunities to solve their problems |
| | ***Negative*** | Negative and generalised norms of reciprocity (Westphal and Zajac, 2013) | **present / present partially with new features** | 1. Generalised retaliation (Westphal and Zajac, 2013)<br>2. Withdrawal of support among corporate leaders and firm constituents (Westphal and Zajac, 2013) | 1. From insiders to KPMG (demanded an unqualified opinion; did not renew their contract)<br>2. From KPMG to insiders (demanded a committee to investigate the misconduct; exerted pressure on management to resign)<br>3. From insiders to Michael Woodford (dismissed him)<br>4. From Michael Woodford to insiders (reported misconduct to the Serious Fraud Office and the FBI; leaked information to foreign media and created an international scandal; attracted the attention of foreign investors) |

(Table by author)

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## Appendix 1

### Framework of the loss settlement scheme

a. Thus, starting in September 1998, Yamada and Mori hurried to structure the loss separation scheme, but they did not have a clear vision of how the separated losses could be eliminated.

Broadly speaking, the loss disposition schemes vaguely sketched by Yamada and Mori fall into two categories:

The first would-be methods where such that when major changes were made in the company's business structure or form (e.g., when the loss-making imaging business was sold), losses from the previously described separation scheme could be eliminated as part of the transformation process.

In the other scheme, when large sums of money were to be moved for an expected corporate acquisition, the losses described above could be buried in those fund flows.

b. In accounting terms, for losses eliminated by these means, if Olympus acquired good will or other depreciable assets through the process of performing the preceding methods, it could add the separated losses (based on the separation scheme) to those assets, and then later depreciate the watered assets over the permitted number of years. The losses would not be booked as losses; they would be converted to assets and then converted to costs as depreciation of depreciable assets. In this way, separated losses could be eliminated (Third Party Committee, 2011, pp.16-17).

## Appendix 2

## Large acquisition project in the medical business segment and the use thereof as a settlement scheme

(1) Outline of the loss settlement scheme using the acquisition of Gyrus

In February 2008, Olympus purchased Gyrus, a medical device manufacturer in England. In connection with the purchase, large sums of money were paid by Olympus to the financial adviser (FA) from June 2006 until March 2010, and portions thereof were allocated to the settlement of losses that had been separated. Then, in March 2011, all the losses were settled by the termination of the agreement for SG Bond, which was utilised said money.

In the loss settlement scheme, which utilised the Gyrus purchase devised by Yamada and Mori, specifically, Olympus took the following path: 1) In the contract with the FA, it granted stock options and warrants besides cash as the fee, after which 2) it exchanged the stock options for dividend preferred shares, and, in addition, purchased the warrants at a high price, and furthermore 3) by purchasing the preferred stock at an amount of US$620 million, it paid to the FA (or the corporation to which the rights to exercise the stock options and warrants had been transferred from the FA) funds equivalent to approximately 30 percent of the purchase price as a result, and 4) a portion of those funds paid to the FA were returned to Olympus via several funds.

A detailed account of the history of the Gyrus purchase and the background until the losses were settled is provided below.

(2) Business expansion strategy through M&A and the scheme to cover investment losses

At approximately the start of 2000, Olympus, which had been sensing that it had reached an impasse in the growth of existing businesses like cameras, endoscopes, and microscopes, was examining the expansion of business by M&A. At a management implementation meeting on October 17, 2003, it had each company propose candidates for the target companies and then surveyed the target companies (minutes of the management implementation meeting on October 17, 2003).

When the Olympus medical business department was studying the purchase of medical device manufacturers, Yamada and Mori, who had been groping for a conclusion to the loss settlement scheme, told Nakagawa, who had established Axes Japan Securities KK (‘Axes Japan’) after his service at domestic and foreign securities companies and who was employed as its president and CEO, that they wanted him to introduce companies that were suitable for business investments (Third Party Committee, 2011, p.49)

**Appendix 3.** Behavioural theory in corporate governance with Olympus: observed patterns and citations

| Behavioural theory in corporate governance | Description | Exemplary citations |
|---|---|---|
| **Helping behaviour** | | |
| *Situational factors: opportunities* | 'tokkin': to hide losses off the books | Yamada and Mori met regularly with the board member in charge of accounting, about once a month, for a reporting meeting on the management of financial assets, including 'tokkin' (Third Party Committee, 2011, p.12) |
| | 'tobashi': moving loss-making investments off-shore and off the books | At the time, the avid sellers of such high-risk financial products were foreign brokerages, and Olympus was shifting its management business from domestic to foreign brokerages. Incidentally, Yamada, the person in charge of managing Olympus's financial assets around that time, began doing business with a foreign brokerage where his old friend Akio Nakagawa worked (Third Party Committee, 2011, p.12) |
| | acquisition of three defunct companies | Yamada and Mori gathered opinions from consultants and the like outside the company and arranged that funds not carried on Olympus's consolidated accounts would purchase, at book value, financial products with enormous unrealised losses. In this way, they proposed to prevent these unrealised losses from coming to light (loss separation scheme) (Third Party Committee, 2011, p.20) |
| | Gyrus acquisition | When the Olympus medical business department was studying the purchase of medical device manufacturers, Yamada and Mori, who had been groping for a conclusion to the loss settlement scheme, told Nakagawa, who had set up Axes Japan after his service at domestic and foreign securities companies and was employed as its president and CEO, that they wanted him to introduce companies that were suitable for business investment (Third Party Committee, 2011, p.49) |

| Behavioural theory in corporate governance | Description | Exemplary citations | |
|---|---|---|---|
| *Situations factors: rationalisations* | rationalisations among insiders | [Yamada proposed that the investment losses should be announced publicly, but Kishimoto answered]: "We will wait, because the losses will decrease if the market recovers, and we can turn things around" (Third Party Committee, 2011, p.75) | "That out of the fee for the Gyrus acquisition, with respect to the purchase of preferred shares, Axes did not want cash originally, so it was decided that a part of the fee would be delivered as preferred shares, but because the problem of subprime loans occurred, suddenly, they said they wanted it in cash, and that was negotiated" (Mori, answering questions by the board of auditors; Third Party Committee, 2011) |
| | provide ideas for rationalisations in front of board members | [Board members during interviews how things were represented to them]: "The 1990s were a period in which many large corporations were posting large losses from financial management techniques. So, when we received the report that a huge amount of extraordinary losses would be posted from failures in financial management techniques, we only thought that Olympus, similar to other corporations, had failures in its financial management technique, and did not think that it was such a problematic issue" (board of directors meeting, Third Party Committee, 2011, p.137) | |
| | explain the rationalisations during board meetings | [Yokoo about the potential of the businesses of the three domestic companies, specifically News Chef]: "Because of the increase in the elderly population and double income households, the market for individual meals is growing. It is believed that demand for prepared foods will also grow, so using the microwave will contribute to health in terms of being able to cut the amount of oil. In a broad sense, this is related to the medical businesses in which Olympus is involved" (Third Party Committee, 2011, p.36) | |
| **Situational factors: Motivation** | | | |
| *for insiders* | Promotion which leads to higher salary and benefits; higher bonuses; pension; | 1. From president to chairperson<br>2. From head of finance division to president<br>3. From head of accounting division to president | It was a serious flaw that a system had been maintained in which human resources (which should have been fair) were distorted, and those who shared secrets and were involved in |

| Behavioural theory in corporate governance | Description | Exemplary citations | |
|---|---|---|---|
| | prestige; influence, etc., indirect financial gain | | the cover-up were treated favourably (Third Party Committee, 2011, p.182) |
| | protecting company's name and prestige | Kikukawa insisted he did it for the good of the company | |
| *for outside associates* | loyal clients: moving from one company to another | "After that, Chan left Commerzbank in 2000 and moved to Societe Generale ('SG'); he left SG in 2004 to start his own company" (Third Party Committee, 2011, p.25) | "Thereafter, when Chan changed jobs to SG in 2000, Yamada and Mori moved Olympus' time deposits to SG and modified the scheme…" (Third Party Committee, 2011, p.26) |
| | long-lasting close relationship with clients | "Yamada, who had been involved in Olympus' financial affairs from around 1980, had become acquainted with Nakagawa, who was employed at a foreign-owned securities company, in the course of managing the company's funds, and deepened his friendship with Sagawa, who was Nakagawa's colleague, through Nakagawa. In addition, Mori had joined them by the time of the establishment of Axes Japan, and Yamada, Mori, Nakagawa and Sagawa had deepened their fellowship" (Third Party Committee, 2011, p.50) | "In 2004, based on an introduction by Sagawa, Yamada and Mori visited U.S.-based medical device manufacturer company A along with Nakagawa, and met with the COO and others of said company, but negotiations with said company were broken off before long" (Third Party Committee, 2011, p.50) |

<table>
<tr><th>Behavioural theory in corporate governance</th><th>Description</th><th colspan="2">Exemplary citations</th></tr>
<tr><td></td><td>financial gain: financial advisory fee; bonuses for high performance</td><td colspan="2">"Yamada, who had been involved in Olympus' financial affairs from around 1980, had become acquainted with Nakagawa, who was employed at a foreign-owned securities company, in the course of managing the company's funds, and deepened his friendship with Sagawa, who was Nakagawa's colleague, through Nakagawa. In addition, Mori had joined them by the time of the establishment of Axes Japan, and Yamada, Mori, Nakagawa and Sagawa had deepened their fellowship. Sagawa established Axes America LLC (dissolved on March 12, 2008; hereinafter, 'Axes') pursuant to the laws of the State of Delaware in 1997, but Nakagawa and Sagawa had been investing in both Axes and Axes Japan" (Third Party Committee, 2011, p.50)</td></tr>
<tr><td rowspan="2">Social learning mechanisms</td><td rowspan="2">(Newcomers learn from board members with longer tenure) foreigner learning corporate and national (Japanese) culture from Japanese seniors</td><td>[Michael Woodford]: "I was then criticised by the non-executive director Hiroshi Kuruma, a former senior executive at the prestigious Nikkei Inc. business media organisation, for copying my letters to Ernst & Young. By doing so, he said, 'you have brought "outsiders" in. Why act in this way?' His message was clear to me: Olympus was a family, and families require loyalty" (Woodford, 2012, p.52)</td><td rowspan="2">"From my experience, there remains a lot of meaningless noise and clutter in Japanese corporate life. I always tried to concentrate on results; in simple terms, what was being delivered and by whom and where. This gave me the data to question why one part of the organisation performed so much more strongly than another. This type of questioning often created uncomfortable tensions but was how you objectively focused on strengths and weaknesses, which in my opinion is what management is about. Kikukawa was unable to read weaknesses and strengths in this way" (Woodford, 2012, p.30)</td></tr>
<tr><td>[Michael Woodford]: "'Why on earth should we have anything to fear from our auditors?' I demanded. 'Given the huge sums and the specific accounting issues involved, I would do the same again'. That put Kuruma-san back in his box" (Woodford, 2012, p.47)</td></tr>
<tr><td>Mechanisms of social influence</td><td>ingratiation and opinion conformity, which led to positive outcomes for the</td><td colspan="2">'Mori-san', I asked. 'Who do you work for?' I imagined his response would be that he worked for Olympus, or that he reported to me. Momentarily Mori's mask fell away: 'I work for Mr Kikukawa. I am loyal to Mr Kikukawa'. That was quite possibly the first truthful answer I had received since we had sat down" (Woodford, 2012, p.25)</td></tr>
</table>

| Behavioural theory in corporate governance | Description | Exemplary citations | |
|---|---|---|---|
| | insider team involved in the fraud | | |
| | exerting pressure and demands for explanations and changes in the status quo, which led to negative outcomes | "Mori had fallen silent again. I now grew annoyed, then angry. I raised my voice and told him that I was the president, and he the vice-president of whom I was asking reasonable questions. These related to transactions with a value in excess of U.S. $1.5 billion. Still not getting any answers, I leaned towards him and looked him in the eye. Moving close to him physically, raising my voice and being so direct in my approach would in Japan be considered unusually assertive" (Woodford, 2012, p.25) | "A response arrived by return email. More details this time–Mori had clearly made an effort, but again ultimately insufficient. Another email followed, this time from Kikukawa, saying that he didn't think my communications were productive, and that I should cease them forth with. It was like a game of chess conducted by letter" (Woodford, 2012, p.45) |
| | pretending that the problem does not exist | "We (Michael Woodford and Mori) were interrupted by Kikukawa, who marched in with another magazine and asked me if I recognised the person in the photograph, he showed me. I answered that it was the president of one of Olympus's main banks. He translated the unflattering article, commenting with disgust that the tabloid press was always creating sensational and groundless stories. Companies needed, he continued, to be treated with more respect. He left as abruptly as he had entered" (Woodford, 2012, p.24) | "In retrospect, Olympus's greatest mistake was believing it could manage the scandal according to the Alice in Wonderland rules of Japan, where you can bow deeply, say sorry, and the problem goes away. This time it was different, with the world's media, investors and overseas law-enforcement agencies all wanting the truth. It was now a story where the facts would dictate the ending, not the language of obfuscation" (Woodford, 2012, p.125) |

<table>
<tr><th>Behavioural theory in corporate governance</th><th>Description</th><th colspan="2">Exemplary citations</th></tr>
<tr><td rowspan="2"></td><td rowspan="2">humiliation and undermining in public</td><td colspan="2">“The half-hour conversation had been held in Japanese, despite the fact that both Kikukawa and Kunibe [SMBC director] speak good English. I had to make do with a translator at my side. During the meeting Kunibe barely acknowledged me and asked no questions about my plans for Olympus. But he appeared intimate with Kikukawa; they even had a little chinwag about golf. We returned in our separate cars to the Monolith building and on arrival I was still fuming. I called a meeting with Kikukawa and Mori (who had been present at the SMBC visit, as ever at his master’s side). I went straight to the point: ‘Do not ever do that to me again. It was completely degrading. It humiliates the company. I wouldn’t treat a junior person in that fashion’. In hind sight, that incident should have been a clear sign of how the ground lay” (Woodford, 2012, p.196)</td></tr>
<tr><td>“On the long table in front of them was a magnificent platter of sushi; in front of where I was clearly expected to sit was a rather sad-looking tuna sandwich of the sort that you would expect to find at a suburban train station kiosk. I adored sushi, as the two men knew full well. Some none-too-subtle point was being made here. No matter, I did not have much of an appetite. A game was clearly being played, and nobody was informing me of the rules. I was going to have to pick them up as I went along” (Woodford, 2012, p.22)</td><td>“Lastly, he said, ‘And by the way, when you go to the airport, you are not allowed to use Nick. You can take the airport bus’.<br>His smile had returned. Over my many years visiting Japan, I had never seen or heard of anything like this. This aggressive rudeness was all so very atypical, simply not the way business was carried out here. My efforts to highlight misconducts had brought out a bullying mob mentality in my colleagues” (Woodford, 2012, pp.69-70)</td></tr>
<tr><td colspan="4">Norms of reciprocity</td></tr>
<tr><td colspan="4">Positive</td></tr>
</table>

| Behavioural theory in corporate governance | Description | Exemplary citations | |
|---|---|---|---|
| From insiders to Michael Woodford | promoted him to CEO in addition to president; gave him ultimate executive power (after demanded explanations about the fraud), trying to buy his confidence and loyalty | "Suddenly warm and conciliatory, Kikukawa spoke first: 'Michael, at the board meeting in the morning I will propose to make you CEO in addition to your presidency'. He went on, 'I will no longer attend the Executive Committee [EXCOM] management meetings, and you alone will be responsible for nominating future directors to the board" (Woodford, 2012, pp.49-50) | "My new CEO title was pure window-dressing, and I was leaving the room with even less authority than when I had entered. All the other directors would stick tightly together, acting as one entity and I was now more of an outsider than ever" (Woodford, 2012, p.53) |
| From insiders to outside associates | loyal, long-lasting, close relations along with all incentives, which this provides | "Later, when Yamada became head of the Administration and Finance Department in April 1997, Mori, who would in July 2000 become head of the Finance Department, was Group Leader of the department's Finance Group; together they were literally like 'two men with three legs' directing the management of Olympus' financial asset" (Third Party Committee, 2011, p.12) | |
| From outside associates to insiders | introduced them to other outside associates and provided diverse opportunities to solve their problems | "In 2004, based on an introduction by Sagawa, Yamada and Mori visited U.S.-based medical device manufacturer company A along with Nakagawa, and met with the COO and others of said company, but negotiations with said company were broken off before long" (Third Party Committee, 2011, p.50) | |
| *Negative* | | | |

| Behavioural theory in corporate governance | Description | Exemplary citations | |
|---|---|---|---|
| From insiders to KPMG | did not renew their contract | "Subsequently, on May 21, 2009 Kikukawa and Yamada visited KPMG AZSA LLC, and unilaterally told them that 'they would not be re-appointed as the auditing firm" (Third Party Committee, 2011, p.165) | |
| | demanded an unqualified opinion | "Although KPMG AZSA LLC did not accept Olympus' explanation, in the end in March 2009 it undertook recognition of an impairment loss of 55.7 billion yen for the goodwill of the three domestic companies [...] and In addition, an unqualified opinion was finally submitted due to the fact that Olympus submitted a committee report by outside experts that concluded that these transactions could not be termed violations of the law" (Third Party Committee, 2011, p.48) | |
| From KPMG to insiders | demanded a committee to investigate the misconduct | "KPMG requested [the] following items from the Board of Auditors in December 2008:<br>• The current performance of the three domestic companies is significantly different from their original business plans, and so we wish you to re-evaluate based on the current situation.<br>• We wish you to perform an evaluation not just of the accounting, but also the businesses.<br>• Present the breakdown of the Gyrus fee, and investigate whether this is a reasonable fee" (Third Party Committee, 2011, p.149) | |
| | exerted pressure on management to resign | "KPMG AZSA LLC had a cooperative consultation with Kikukawa, Yamada, and Mori on May 7, 2009 regarding each of the problems noted above, and with regard to the resolution of November 2008 to purchase the preferred shares at a high price, stated 'There are doubts about the propriety and reasonableness. If it became high as a result, perhaps it is conceivable to file a suit against the counterparty. If the same kind of explanation as before were going to be repeated, then it would be difficult to continue the auditing agreement in the future" (Third Party Committee, 2011, pp.164-165) | |
| From insiders to | dismissed him | "Mr Woodford was selected to lead our effort to strengthen Olympus's global competitiveness. However, he couldn't | [Shimoyama]: "We should have never hired a foreigner as a president!" (Woodford, 2012) |

| Behavioural theory in corporate governance | Description | Exemplary citations | |
|---|---|---|---|
| Michael Woodford | | understand Japanese style management and was acting arbitrarily and peremptorily, I was afraid the situation, if left unchanged, would cause considerable damage to our customers and shareholders, and therefore, I had to act decisively and quickly. I am really sorry for his dismissal" (Woodford, 2012, p.117) | "The next day I was given a small measure of credit by Takayama, when he told reporters, 'Woodford did have a dogmatic style but he also shed light on the issue, and that is something not one of us could do', and went on to say, 'He deserves recognition for doing that" (Woodford, 2012, p.191) |
| From Michael Woodford to insiders | leaked information to foreign media and created an international scandal | "We (Jonathan Soble and Michael Woodford) talked for about forty-five minutes. I ended our meeting by saying, 'Jonathan, I need you to expose all of this. And please do it quickly" (Woodford, 2012, p.73) | [Woodford in an interview with Lisa Murphy from Bloomberg TV]: "Let Kikukawa and Mori come to London or New York and explain to an independent judge why the company had paid US$1 billion for three companies with no turnover, as well as US$700 million in fees to unknown advisers. I knew the evidence was compelling and they would never step out of Japan for fear of arrest by the Serious Fraud Office (SFO) or FBI" (Woodford, 2012, p.119) |
| | reported the misconduct to the SFO, FBI | "[…] SFO, which investigates and prosecutes serious cases of corruption in Britain. I knew the SFO would be interested in what I had to say. At the time of the acquisition by Olympus, Gyrus had been a British company and hundreds of millions of dollars in relation to the payment of the so called 'fees' had flowed through London en route to the Cayman Islands" (Woodford, 2012, p.101) | |
| | attracted the attention of foreign investors | "As I had said repeatedly in public, I believed strongly that it was important that Olympus remained listed. ... If individuals had acted wrongly, they should be held to account. It would seem counter-productive to damage the corporation itself, because innocent employees and shareholders would suffer" (Woodford, 2012, pp.168-169) | |

(Table by author)

[i] "An unqualified opinion is an independent auditor's judgment that a company's financial statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles (GAAP). An unqualified opinion is the most common type of auditor's report. Like any auditor's opinion, it does not judge the financial position of the company or interpret financial data. It indicates that as a result of the testing done during the audit, the independent auditor has enough information to conclude that the company's financial statements conform to GAAP and fairly present the company's financial position for the statement time frame. It is issued when the auditor believes that all changes, accounting policies and their application and effects, have accurately been disclosed". (Investopedia.com)