

6th Annual European GRC Summit

Governance, Risk Management and Compliance

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The Oylmpus Scandal

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Summary

- Olympus, a sound company with credible- and diligent employees and state-of-the-art technical strength
- The 1.7 Billion \$ scandal contains the entire range of Governance, Risk and Compliance defaults.
- Failures due to bad Governance, lack of adequate risk management, misconduct , lack of controls, fraudulent mismanagement, etc.
- Tobashi the accounting bit and poor corporate culture, allowed the fraud to continue for 13 years
- Hid investment losses over a period of twenty years

The Japanese management style

- The Japanese excel in building organizational consensus & trust.
 - In these uncertain times, that is never a wasted activity.
- Their strength is their attention to detail
 - total quality management, just-in-time manufacturing
- **Kaizen** (改善, Japanese for *improvement* or *change for the better*)
- **Senpai** (先輩?) and **kōhai** (後輩?) are an essential elements
 - seniority-based status relationships
- Pause, reflect, and go away. Think the situation carefully
- The ideal of lifetime employment with a single company,
 - strong generalist managers with a holistic understanding of the company
- Loyalties are generally undivided & value emotional restraint

The Western management style

- Taking a more flexible and risk-based approach to prioritization.
- Strong recognition on best practices and learning from each other.
- Managers are often impatient to get things done and move on to the next challenge!
- More functionally specialized, and for people to move between companies.
- These strengths can sometimes be weaknesses in a different context.

Tsuyoshi Kikugawa on Woodford

- We hoped that he could do things that would be difficult for a Japanese executive to do
- He was unable to understand that we need to reflect a management style we have built up in our 92 years as a company, as well as Japanese culture
- He ignored our organizational structure and made decisions entirely on his own judgment
- I told him repeatedly he couldn't do that, but he didn't listen

Corporate Culture and Concealment

- No Governance, Risk Management or Compliance oversight for the top executives
- The core of the management was corrupted and contaminated
- Lacked sense of Transparency & Governance

Tobashi and Repo 105

- *Tobashi* – literally to ‘fly over’ . Trade losses are shifted by banks from one client’s portfolio to another, to obscure their performance before key accounting dates.
- The transfers, which, like Lehman’s Repo 105 operations, were perfectly legal at the time, worked fine as long as everyone — i.e. the counterparties — played along.
- When they didn’t the whole tobashi scheme came crashing down.
- That created a major scandal and eventually culminated in the outlawing of the tobashi practice around 1992, and the collapse of Yamaichi Securities, one of the banks involved in the trades, in 1997.
- Lehman’s Repo 105 idea did not originate in the US or London, but took its inspiration from somewhere rather more eastern.

Tobashi

- Tobashi is a form of earnings management scheme that Olympus developed by selling devalued investments to an 'unrelated' entity (under common control at historical costs)
- Thereby no loss was recorded by Olympus on the sale of the investment
- The losses were eventually recorded as impairment of goodwill
- To facilitate this transaction Olympus would buy the 'unrelated' entity that held the investments, with the price set at the lower market value and then add in significant goodwill to the acquisition

It always starts with a small concealment

- Olympus's financial troubles started with the Plaza Accord in 1985, an agreement to devalue the U.S. dollar.
- The ensuing rise in the yen dented the company's operating profit, and its president at the time, Toshiro Shimoyama, decided Olympus should augment its core business with *zaiteku*, or financial investments.

<http://online.wsj.com/article/SB10001424052970204083204577082163172106608.html>

Start an annual tradition of *Ohsoji*, The big Compliance clean-up

- At Olympus, ohsoji can be expanded to include the sense of stewardship, responsibility, full impairment test (of goodwill) & intangible assets, workshop on the fundamental measures to restore confidence, manufacturing output, consumer demand, fading investment climate, economic and trade deficits, etc.
- Start your own annual Ohsoji- clean-up workshop
 - *The next 4 slides are about cleaning up, where the process is as important as the outcome, even when the process could have been a disaster, as in the case of Olympus.*

Guidelines/mandates tell us the minimum. Always do more.

- Implement your own doctrine on Risk & Compliance
 - to prevent and detect criminal behavior is a low standard.
- Move your compliance program & activities out to business-process owners hands
 - to one man ownership.
- Eliminate redundant compliance activities
 - get everyone in the organization on the same page,
 - without forcing a one-size-fits-all approach on everyone.
- You need a hotline, a code of conduct, continued training, good tone at the top & tone-at-the-middle

Evaluate the culture of compliance

- Conduct an integrity survey.
 - Employee view the various compliance and ethical issues
 - to help form a plan for building a better approach.
- Brand your compliance and ethics objectives
 - include a logo, brochures, posters. Make Compliance concrete to all.
- Make the Compliance & Risk effort global & multilingual
 - closely connected to HR. Employee performance is judged as part of the adherence to stated compliance, ethics and other standards.
- A good compliance program is not an enforcement agency or a list of “don’ts” for employees.
 - Rather a system that helps keep the organization comfortably within its boundaries. (Know how to operate within boundaries)

Scale the programs to size, type & formality

- Keep the business within the boundaries set in the doctrines.
 - identify when processes are going awry. Address before explosion
- Engineer the process, structures and mechanisms that flag when things are going off track.”
- Monitor for signals that risk may be changing, such as:
 - policy violations, unusual transactions or trends, cultural issues, potentially problematic business models, changes in policies, confusion or lack of awareness of policies, or changes within the organizational structure, changes in laws or regulations, changes in the competitive landscape, or unusual trends in the market.

Conduct transaction reviews.

- Show me anything that looks like this or smells like this
 - Feel comfortable discussing uncomfortable topics.
- Monitor new hires, (ambitious, aggressive, and more willing)
- Every compliance decision is a brand decision
 - The program should evolve to a point where employees recognize the importance of good behavior to protect the brand
- Trust gives you a certain amount of permission is critical
- *Address all of the above unless you want your CEO/CFO has to testify (report) before the oversight authorities due to a crisis in your ethics and compliance program*

In Conclusion

Brands are about values

Values are about people

- The Japanese corporations—their culture, their society and their responsiveness, are displayed by the power behind the Japanese brands. From Toyota to Sony and many others
- Japanese brands enjoy global respect for their high quality, attention to detail, technological edge and commitment to the environment.
- Lets all take a bow.

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- Thank You
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