What U.S. Companies Can Learn From Olympus

Eleanor Bloxham
January 26, 2012

U.S. TV detective shows end when the criminal is caught. In Japan, though, "the program continues 10 more minutes," writes psychologist and scholar Hiroshi Azuma in *Japanese frames of mind: cultural perspectives on human development*. The criminal talks about his life, his feelings, his conscience, and "he apologizes." The detective shakes his hand "and encourages him to start a new life when he finishes his prison term."

Through the lens of Olympus' alleged fraud, we are watching an alternative ending to a story of corporate malfeasance. Olympus has been able to preserve its listing on the Tokyo Stock Exchange -- and its example is one that U.S. companies seeking to build trust would be wise to consider. What might we emulate?

After claims of no problems as late as October, Olympus' alleged fraud has been followed in recent months with independent reviews that have been made public, condemning the company's actions. To be clear, it's not that Olympus didn't know how to commission a whitewash report. Its board of auditors (an oversight structure in Japan that does not exist in the U.S.) commissioned such a report in May 2009 and found no wrongdoing.

But in contrast, the December 2011 independent third party report by five attorneys (including former judges) and one accountant hits hard. The publicly available English version of the report doesn't say Olympus' management is rotten to the core, as had been earlier reported. What it does say is damning enough: "the core of management was corrupted, and the periphery was also contaminated," and "There were many yes men among the directors, and it must be considered the Board of Directors had become a mere formality."

Curtis Milhaupt, professor of Japanese corporate law at Columbia, says the frankness of the report is a "good sign for Japanese corporate governance" and, as professor Mark Roe at Harvard Law says, it shows an Olympus committee much "more willing to be negative" than we are used to seeing in similar reports in the U.S. The oft-praised report commissioned by the Enron board and even reports commissioned by the government and bankruptcy courts, such as the recent *Financial Crisis Inquiry Report* or the *Valukas report on Lehman*, describe lapses of oversight but do not contain clear, pointed characterizations or condemnations of the sort the Olympus report provides.

**Emphasize transparency and candor**

Making the full, uncensored text of such a candid company commissioned report publicly available is unusual enough by U.S. standards. But rather than hide the details of the many twists and turns in this remarkable saga as many U.S. companies might do, the top third of the home page of the Olympus website directs you to the timeline and relevant documents. In large letters, the web page reads: "Taking this opportunity, we once again extend our deepest apologies to Olympus shareholders, customers, business partners, and all stakeholders, for the significant trouble we have caused them."
This is not the kind of language we are used to seeing on U.S. company websites when the jig is up. Even if the Japanese meaning may be slightly different, the idea of such a bold admission and apology is worth considering.

Although we in the West often view ourselves as open and outspoken, as Tim Phillips points out in his delightfully amusing Talk Normal, we in fact live in a culture with a pervasive reluctance to call something what it is. "Problems" become "issues," Phillips says, and the gobbledygook language we use creates a "workplace [that behaves] as a cult." Workers may have a sense of belonging but are also encouraged to fall in line and to "take on the values of the workplace," whether they agree or not, as a prerequisite to hold their jobs and be considered to be "performing at work," he says.

What Phillips describes, is precisely what allows these scandals to occur and perpetuate in the first place.

Admit, don't deny - and apologize

Following the December 6 independent report, current Olympus President Shuichi Takayama issued a statement the next day saying, "it has become clear that the company postponed over many years recognition of losses … [due to] defects in the corporate governance of the Company. I, on behalf of the Company, deeply apologize for the trouble to all related persons that this has caused…. It has become clear that [those responsible including board members] will not be able to escape from liabilities."

A news announcement on December 21 included this closing line: "The Company would like to again take this opportunity to offer sincerely its deepest apologies…."

Find out who is responsible and sue them yourself

Boards in the U.S. are relationship-oriented. And in that, they share much in common with Japanese culture: "To condemn someone … prematurely without sufficient justification is inappropriate everywhere but especially so in a relationship-oriented culture where interpersonal ties assume priority and being sympathetic to others is a moral imperative. One way to do this is to withhold judgment until a detailed story is available," Azuma writes.

In the December 7 letter, Takayama explains that shareholders asked the company to pursue a damages suit against the directors. Such requests by shareholders aren't unusual in the U.S., says University of Akron Law School professor Elizabeth Shaver, but generally U.S. companies leave it to shareholders to pursue the matter.

Olympus set up commissions that moved swiftly to determine who was at fault. And the company, represented by the board of auditors, has brought lawsuits against named directors, including Takayama, who is being sued for $500 million yen. While it's true the U.S. doesn't have a board of auditors structure, wouldn't it be refreshing if boards pursued justice for their stakeholders themselves rather than forcing shareholders to do so on behalf of the company? It would certainly send a powerful signal to the capital markets, executives, and directors themselves if boards were to pursue wrongdoers directly.
Boosting trust

According to the 2012 Edelman Trust Barometer survey, 11% of respondents don't trust Japanese businesses to tell the truth while over three times that percentage (38%) don't trust U.S. companies to be honest. Over the last few months, Olympus has been willing to bend its pride and do what was required to survive this scandal. A cynical response would be to say, "What choice did they have?"

Olympus is not to be applauded for its alleged fraud or cover-up, but if U.S. companies take note of the good Olympus has done in the last few months, they'd help to build trust in U.S. companies, improving our ability to attract capital and turn our economy around.