

## Japan's whistle-blower supreme speaks out

Michael Woodford glances out of the floor-to-ceiling window of his multimillion-pound loft apartment, which looks out across the River Thames toward the City of London, the so-called Square Mile that is among the world's leading financial and commercial centers.

The 52-year-old Briton has effectively been jobless since being ousted for the part he played in Japan's own Enron scandal, when he blew the whistle last autumn on a 13-year, ¥130-billion accounting fraud at Olympus Corp., the global company he was running at the time.

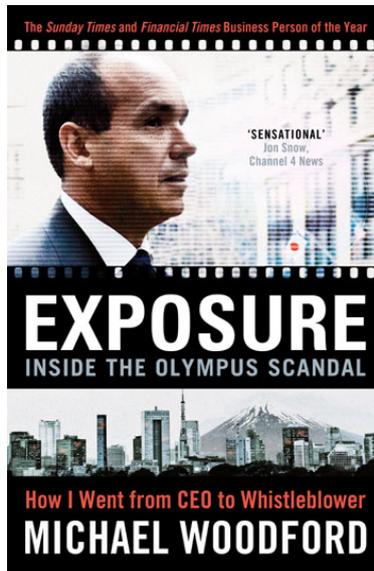


**Laying bare: Ex-Olympus President and CEO Michael Woodford, and his book, "Exposure," which came out this week.** ILLUSTRATION BY ANDREW LEE

Woodford, who was already president, had been appointed chief executive officer only two weeks earlier — groomed after 30 years, most of which had been spent in Europe, at the maker of cameras and endoscopes. "I'd proved in America and Europe that I understood the business. I wasn't a bureaucrat. I'd proven that I could realize the potential of Olympus," he says emphatically.

But soon after reaching the top, he discovered that senior board members had sought to cover up loss-making securities investments through accounts in the Cayman Islands, among other locations, and by vastly overpaying for tiny firms with no turnover in an attempt to square Olympus' accounts.

After demanding answers from the board over the payments — "they just didn't want to turn over those stones," he explains, Woodford was fired in October 2011 on the grounds that "he couldn't understand Japanese management style and was acting arbitrarily and peremptorily."



He fled his adopted home in Tokyo in fear of his life amid rumors of yakuza involvement in the scandal.

Job offers have since come in from firms in Britain and Japan. But so far Woodford, who does not speak Japanese, has demurred. Instead, he has carried out public-speaking engagements and has written "Exposure," a book published last week about his experience as one of the corporate world's highest-ranking whistle-blowers.

As president of Olympus, he ruled over a firm with 40,000 employees and a net income of billions of yen a year. It is not hard to imagine

Woodford — named Business Person of the Year 2011 by the British-based newspapers the Sunday Times, the Independent and the Sun — striding through the City of London, briefcase in hand.

Yet something about the idea snags with that stereotype — not least being that he grew up in the port city of Liverpool in northwest England, in a Victorian terrace house with an outside toilet in a backyard shed, left school at 16 and says his two passions in life are human rights and road safety.

His vision of how corporations can be both ethical and profitable would appear to put him at odds with most boardrooms around the world: He recently wrote an op-ed piece for a newspaper praising a German pharmaceutical company that remodeled its distribution network to prevent U.S. prisons buying one of its drugs for use in executions. Meanwhile, he says his two teenage children won't see a penny of the £ 10 million settlement he received from Olympus, and will have to earn their own way in life.

So when he says he is sympathetic to movements such as Occupy Wall Street, it seems more than mere lip-service. In a world overrun with global multinationals, "Exposure," which looks set to be a best-seller, could turn Woodford into a new kind of business star: a globe-trotting executive with a conscience — if the corporate world is bold enough once again to grant him a seat at its boardroom table.

**I last saw you at the end of May at an employment tribunal hearing in London that awarded you that £ 10-million settlement for unfair dismissal and discrimination. What have you been up to since then?**

I wrote the book. It wasn't a simple book to write. There's an enormous amount of fact-checking involved. Three separate firms of lawyers tested it from a legal point of view.

**With hindsight, do you have any regrets about how things worked out for you at Olympus?**

At an extraordinary general meeting on April 20, 2011 (at which shareholders approved a new board after Woodford had already failed in his bid to be reinstated), the remaining members of the board — the ones who hadn't been arrested or indicted — all stood down. There was a new board, which needed to move on.

I want the best for the company; good luck to them. And I wanted to move on.

**Do you regret that the shareholders didn't back your reinstatement?**

(Pause.) I don't really feel that. My life has moved on and I feel very positive about life. If I knew where I would be at the end of this nightmare, which is a good place to get to, it would have been fine, but at the beginning clearly I didn't know where it was going to go or how it would end.

I feel very sorry for Japan that it is so broken (because of) what I call the "perverted golf-club mentality" — the big corporate networks made up of the banks and insurance companies and the big corporations.

**What do you mean by the "perverted golf-club mentality"?**

Their interest is the protection of the interests of the members. It's not about shareholder value or what's right or wrong even. And that was demonstrated graphically with what the shareholders did at Olympus — that couldn't have happened anywhere else in the world, as their

own fiduciary duty would be questioned.

How could they not have made a clear statement after the stock price fell by 81 percent, with ¥7 billion written off (the value of the company)?

Aside from Olympus, look at the consumer-electronics companies in Japan compared to U.S.-based Apple or South Korea's Samsung. The top 40 technology companies in Japan add up to the market capitalization of Samsung now. We've seen Panasonic, Sharp and Sony have their debt ratings cut to junk status. Yet the banks are still lending to them. Those companies would be allowed to fail elsewhere. But in Japan there can be no failure in the system.

**Regarding the pressure you were under at the height of the scandal, you said: "If I cracked, the family would go down with me." Did you ever hesitate before blowing the whistle?**

No, never. I wasn't impetuous. I tried over a period of many weeks (to get answers from the company). I wrote six letters to the board in the most explicit terms. What surprised me was that you write those sorts of letters and you include a report from one of the big-four accounting firms totally condemning the \$700 million in acquisition fees paid when Olympus bought three companies with no turnover for \$1 billion — and any other board in the world, especially the outside directors, would say: "We have to do what Mr. Woodford's suggesting; we have to investigate this." But the 14 directors, three of whom were outside directors, were so blinded.

I don't think that attitude and approach would be any different across many companies in Japan — not the fraud but the complete and utter denial of reality.

**So how can top management in Japan be improved in your view?**

You're talking about huge social change. I think you need a very strong leader. The status quo in Japan has to be broken. My politics are left-wing, but with (nationalists) Shintaro Ishihara and Toru Hashimoto going together (in this month's general election), part of me thinks it's whatever it takes — left-wing or right-wing — to get Japan to function in a better way.

**Do you think that's a realistic possibility?**

The likelihood is that it probably will carry on like this and all that will happen is that the living standards of the Japanese will go down into a terrible, terrible place.

At the moment the restaurants are busy, everyone's fine; it's all okay. But remember, the country is on borrowed money. It's pumping money into all its wonderful projects and pensions and healthcare — but if that 235 percent figure (Japan's public debt is 235 percent of its annual gross domestic product, the highest percentage of any nation in the world) keeps on going up ... .



**Two's company: Michael Woodford in autumnal Lichfield, central**

I hear the arguments that Japan doesn't have to tap the world capital markets because domestic savings are so high, but Japanese citizens are at liberty to take their savings offshore. Japan would then run out of money in a matter of weeks.

I advise some of the world's biggest financial firms on

**England, with his older sister,  
Yvonne, when he was aged "4 or 5."**  
PHOTO COURTESY OF MICHAEL  
WOODFORD

where and how they should position themselves in relation to Japan. There's so much interest in Japan but not for the right reasons.

I meet with people who are brilliant financial analysts and they will take me through many of Japan's largest companies and it's horrible. The banks lend huge amounts of money to indebted companies — but with no risk premium. That's why you're seeing credit-default swaps (tradeable insurance policies against default, whereby an investor pays a premium to another who, in return, pays up if the borrower defaults) shooting up for Japanese corporations.

### **Aren't the companies in Japan with more foreigners in their boardrooms actually the least successful?**

This is the Keidanren (Japan's influential business lobby) and their mischievous nonsense. When this scandal appeared, Prime Minister Yoshihiko Noda said that it was very unfortunate but Olympus does not represent corporate Japan, which operates under the same rules of capitalism as elsewhere. He was right to speak out. But what he said, with respect, is utterly wrong — totally wrong.

The ruling Democratic Party of Japan came up with a very radical proposal, which was that all listed companies should have one external director. The Keidanren objected, and in July the Justice Ministry dropped that recommendation to make it Japanese company law.

There are good examples of companies moving in the right direction, with a majority of outside directors — Hitachi is one — but they are the exception. Out of the 1,600 companies listed on the Nikkei index,

more than 1,000 don't have one outside director. Now, if you're talking about external people looking to invest in Japan, what are they afraid of? Such people have to believe that the figures they're reading are truthful and that there is proper scrutiny and oversight.

I'm sure some people in Japan will say they don't care, that if those people don't want to invest in Japan, then so be it. That is one of the terrifying things about the way Japan functions. It doesn't.

### **What measures can lawmakers take to boost growth?**

They need to liberalize the financial markets in relation to the takeover laws, to not be afraid of hostile takeovers, because that's how you bring in foreign management. It brings massive inward flows of capital. I would legislate that you have to have a number of outside directors. I would change the accounting laws — I would have compulsory rotation of auditors.

I think there are a lot of things that could be done to make the accounting more robust. The public (needs to be able) to judge companies that deliver in an ethical way sustained profit, and promote young people earlier. A lot of it is cultural. It's like standing up and saying: "We're not impressed with this" — and changing it.

### **You paint a very grim picture, but Japan isn't like Greece or Spain ...**

It's much worse.

### **Although there's no rioting on the streets?**

At the moment. Things would be fine in Greece if you just kept adding to the national debt. It's only because Greece's government has been forced (to act). How are you going to pay down Japan's debt?

The only way to do it is for Japan to become an incredibly successful economy — or by cutting.

**You ran a giant Japanese corporation and you met with politicians at the height of the Olympus scandal. Where do you think power ultimately lies in Japan?**

In "the club" — the banks, the insurance companies. I don't think they're *that* powerful. I wouldn't be afraid of the banks. But at the moment there are moves to increase the banks' ability to become a shareholder in a company from the current 5 percent limit to 15 percent, which would be an utter disaster.

The reason they want to do that is that venture capital is not really a concept that is known in Japan, and there is a shortage of capital for those few examples of where people do want to invest. So to me, it seems you could do that, but after a company reaches a certain size, you certainly shouldn't do that because it would mean the banks could have a controlling interest.

The reason the banks want to do it is because the debt thing is going to get so bad they'll want to swap debt for equity, which will only make things worse. You've got to let things fail. Failure is part of capitalism.

**Do you believe that Japan is a true free-market economy?**

I don't believe in communism but it would probably work better in Japan than anywhere else. Other people have said the same. I don't think it's a free market. It's a distorted market.

**Is that because the hand of the state looms large?**

It's the hand of "the club." If you want to buy another company in Japan, let's just say it's one Japanese company wanting to buy another, it's almost impossible. There have been proxy fights. What you want is like Pac-Man, where a really strong company buys up the weak ones and makes them strong. That can't happen (because of takeover laws).

But you're touching all sorts of vested interests. You'd get non-performing loans because companies would go down. The dog's not barking in Japan, thanks to the special factors of domestic savings (being so high) and instability in other parts of the world. It's barking in Europe and in America to some extent. But the dog will be howling and squealing in Japan. Structurally, Japan has got some of the worst — *the worst* — problems in the world.

**Is your sense that politicians really get this?**

Some of them do. I've spoken to them.

**Are these politicians with influence?**

Some of them will have the same problems as I've had; it's almost a scorched-earth policy. Until things start breaking down and a sense of crisis appears, I don't think anything's going to happen.

**What are your hopes for Japan's general election this month?**

I hope you get a real leadership with a mandate for change. If you're going to deal with pensions, healthcare reform and all the other difficult issues other economies are having to grapple with, then you're going to have to have strong leadership.

I remember Britain at its nadir

(in the 1970s), when the (striking) miners were controlling the whole country and it was going into terminal decline — yet somehow the system turned out Margaret Thatcher. Whatever you think of the woman — like or hate her — she was a woman for her time. Without her, I don't know what would have happened. I think we would have ended up in anarchy.



**Sacked: Michael Woodford, ousted for outing crime at Olympus Corp.**  
PORTFOLIO PENGUIN

Japan needs a non-violent French Revolution. It has to change its institutions. I remember talking about daylight-saving time to one of the ministries when I was in Japan, watching their reaction and listening to their platitudes of why it couldn't be done. It's like "Alice in Wonderland."

"We can't do it." There was no logic to the arguments.

**Are there similarities with the case of Britain, which has had to manage an inevitable decline?**

I don't think you can make the parallel. Britain will make more cars this year than at any time in the last 30 years. Britain had to manage a new world order in which it didn't have colonies. It was inefficient. But it did shut its shipyards and it did shut its mines. It does invest in media and financial services and it realizes that you do need engineers and scientists.

Britain has got problems, but they're not the same type of problems as in Japan. Weak companies fail here (in Britain). Strong companies buy weaker companies. And there isn't denial, once something is in the public domain, as in Japan.

**The likely next prime minister, the Liberal Democrat Party's Shinzo Abe, has said he wants to be able to order the Bank of Japan to buy government bonds directly to fund spending, and that he is in favor of unlimited monetary easing by the Bank of Japan as a way to beat deflation ...**

(Interrupts.) I like Abe. ... I find he's speaking with a more direct tone and explicit tone. But you have to have a strong majority and whether within his own party he'll be allowed to (govern) ...

**Do you think less independence for the Bank of Japan would be healthy?**

Yes. (In terms of easing) I don't think there's any one panacea. We can see in the West that fiscal tightening or fiscal easing can buy time. But the fundamentals are: Do you have an educated workforce who then joins enterprises that generate services or products that people want to buy?

The state has to have some realism as to what it can spend. Japan is not doing anything to deal with its deficit — just raising consumption tax (from the current 5 percent to 8 percent in April 2014 and to 10 percent in October 2015), and that won't be anywhere near enough. So you may have to say retirement will be at 70.

**In Japan, it seems to me that a pattern emerges after a major scandal or disaster. First, there is a cover-up and denials from the Establishment, and a lie is perpetrated by the media. Then there are protests**

**by the public. But is there ever any justice?**

I think in Olympus' case there is. You've got the whole board (moving aside) and people were arrested and indicted and those individuals, their own personal reputations are utterly ruined, aren't they? The problem is the behavior you just described — the denial.

The media is part of the problem as well in Japan. It's not at all aggressive and probing. The Japanese media started covering the Olympus scandal in a reasonable way — but only after the Western media had set the agenda and the FBI and the Serious Fraud Office here in Britain started investigating Olympus.

The Japanese media didn't actually investigate, they reported. Other Western media were investigating, tracking people down in Hong Kong, in Florida. They were speaking to non-executive directors, they were probing these Mickey Mouse companies, they were doing what good journalists do.

I was at a party in January with some of Japan's leading journalists. I asked one of them, who works for a national daily newspaper, what would have happened if I'd gone to them, if I'd passed the file (of internal documents) over to them?

The answer was that journalists would have loved to have reported it — but the editor would never allow them to. The story was too hot to handle. They said you don't attack a big Nikkei-listed company like that. You just don't do it.

**How did the Japanese media pigeonhole you?**

Some of the Japanese media were superb. But the point is they couldn't have done the story from the beginning. That's the scary bit.

They can only follow. Not because of the individual journalist but because of the editorial policy of the large institutions that have to take some heed and note of the powerful forces in Japan.

But there is a free press. Shigeo Abe, editor of the monthly news magazine *Facta*, did publish (the Olympus story). He wasn't taken away in a white van. There's (online video service) *Niconico Douga*, which I find better than anything else in the world — open, completely accessible, interactive.

**Do you see any parallels in terms of institutional failings between the Olympus scandal and the disaster at the Fukushima No. 1 nuclear power plant operated by Tokyo Electric Power Co. (Tepco)?**

In "Exposure" I quote the Fukushima Nuclear Accident Independent Investigation Commission that reported to Japan's parliament this summer. Its point was that this was a disaster "made in Japan," because of (a culture of) obedience and obsession with the hierarchy. You can take that template and put it across corporate Japan — it's the same issues.

It's not that Japanese people can't be very realistic and honest through self-analysis and criticism. It's just that then you get into the implementation and the actioning. And those guys from Tepco hang around ... *God*.

**How in your view can corporations in Japan be both ethical and profitable today?**

I'd break away from the practice of promotion based on age. As soon as somebody's bright and positive, promote them young.

I think there's a huge thing that women can do in Japan. It's such a

macho attitude — clubby. Half the graduates are women. Use your women. That has to change. There are so few women in middle management, let alone senior management. (The goal must be) to create a true meritocracy, to liberalize, to allow the bad companies to be taken over by the good companies — to allow failure, to control the banks and not let the Keidanren set the agenda.

The government should set the agenda. And ultimately it will come down to simple human nature and societal changes so that people become, hopefully, less blindly obedient and don't sleepwalk into oblivion — because that's what's happening at the moment.

**Given your experience, would you encourage other potential whistle-blowers in Japan to come forward?**

They know they can go to Facta, which will protect their and your source, absolutely. But they may say, "That's okay for you, Mr. Woodford, because you're the president and you've got a British passport and you can get out of here." And I am sympathetic to that point of view.

**One memorable exchange in the book is your encounter in August last year with Hisashi Mori, Olympus' executive vice president, when you challenged him over the Facta magazine article that broke the scandal. You ask him, "Mr. Mori, who do you work for?"**

He said: "I work for Mr. (Tsuyoshi)Kikukawa (Olympus' chairman at the time of the scandal, who has since pleaded guilty to charges of falsifying accounts and faces

up to 10 years in prison). I'm loyal to him."

**What had you expected him to say?**

I expected him to say: "I work for Olympus" — or, "I report to you, Michael." But I was pushing him and I knew by his answer then what the problem was.

The problem was not misplaced loyalty, it was a perversion of what loyalty is. It wouldn't have been if he had stood up and said this is why



**Dapper duo: Michael Woodford with his father, Noel, an electrical engineer who once ran power stations, but who had become a university lecturer by the time this photo was taken in Southend-on-Sea, southeast England.**  
PHOTO COURTESY OF MICHAEL WOODFORD

he did it, and that it was *tobashi* (a practice in which a company shifts investment losses from one subsidiary to another) — and said, "I'm sorry."

But he didn't. Instead, he tried to annihilate me; my wife was close to a nervous breakdown and he put the company through a protracted (episode). He looked after and fought for his own interest, himself.

The board of directors haven't got the ability — this is the scary thing — to think independently.

That doesn't apply to everyone in Japan. I think the management class and the engineering class is wonderful, but the senior executive general-management class is, in many organizations, disturbingly weak.

**You said you felt like you were taking on the whole business establishment in Japan when you blew the whistle. Do you feel now that you won?**

The whole Olympus board was brought down. I think that's the first time at a Nikkei company that the whole board of directors had to stand down. Three of them ended up getting indicted and will be sentenced for their crimes. But I can't bring the whole edifice down. That's not my role or purpose in life. I shone a light to show how dysfunctional Japan is.

It comes back to the Japanese people and their politicians — who are their mechanism of representation — and the media, which helps forge public opinion and can be questioning of powerful forces.

I feel profoundly pessimistic, and that decision to drop the recommendation that it should be company law to have one outside director was such a depressing moment considering what happened with Olympus. Not to have that enshrined in company law shows nothing has really changed.

**Would you class that as further evidence of what you termed the "perverted golf-club mentality" at work?**

Well, the macro picture is Japan's national debt that's 235 percent (of gross national product) and climbing at a pace; its 800,000 less population every year; its population's longest life-expectancy in the civilized world; its lowest birthrate and highest number of unmarried women in their 30s — because they just don't want to have a salary-man coming home at 10 p.m. stinking of sake.

Is it going to get better? They've got two of their nuclear facilities working, the rest are not. They're importing huge amounts of fossil fuels. The tensions with China, you can just see the biggest trading partner coming out with: Buy anything but Japanese.

They've got so many problems, yet their DNA is so insular and at the time when they desperately need outside blood in their companies, they're going the other way.

I lectured at Harvard two weeks ago. They've written a case study on Olympus and there were 75 students there doing an MBA in the class I talked to. There were a lot of Korean and Chinese people but no Japanese. I talked to a group of directors who were taking a course at Harvard — not one of them was Japanese.

So, the country is inward-looking and dysfunctional and it's getting worse.

**Where do you think foreign bosses in Japan have done things right — or wrong?**

I think Carlos Ghosn (at Nissan) was a very strong manager and was supported by the main board. Sir Howard Stringer (at Sony Corp.) was, I think, seen by many as not having acted quickly enough — and whether he had the ability to actually manage, I'm not sure. The number of players is so small.

British companies may be run by American and German and Chinese managers and senior managers and directors. Japan, if it's going to manage around the world, needs to have a mixed complexion of management skills at the top. Besides myself, Craig Naylor left Nippon Glass because of irreconcilable differences. So I don't think Japanese are very good at managing Westerners and therefore they need Westerners to manage Westerners. But they still have to manage the Westerner who's managing the Westerners.

They have to learn how to manage outside the hierarchical, obedient, servile and deferential approach (Woodford spits out those four adjectives) to Japanese management — to challenge with confrontation.

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