Olympus Cover-up: Beware of Unstable Power

By Henrich Greve

Last week we were treated to the spectacle of Olympus Corp. having its first stockholder's meeting after CEO Michael Woodford lost his job after alerting the firm's board of directors of possible accounting irregularities.

As a shareholder in Olympus, Mr. Woodford had the right to ask questions, and took the opportunity to ask for an explanation of why he was fired. This question was not answered by the company management, which is significant for two reasons. First, failure to answer question from shareholders can make a meeting invalid, meaning another one would have to be held (the odds of that happening are low). Second, it would be interesting to hear a public explanation of why a CEO was abruptly fired when informing the board of potential irregularities. It is after all what CEOs are supposed to do.

Observers of these events are not much in doubt about the reasons for the firing. The chairman of the board at the time, Tsuyoshi Kikukawa, saw the information about the irregularities as a threat to his position and legacy as an Olympus manager, and had the board fire Mr. Woodford as part of a cover-up. This was a hugely risky decision. As a cover-up it had minimal chances of succeeding because information about accounting irregularities was already circulating in the press, and a fired Mr. Woodford would be likely to go public with the charges, as he indeed did. As a way to protect oneself, it was probably the most conspicuous act Mr. Kikukawa could have chosen to interest and annoy prosecutors. The Securities and Exchange Commission in Japan investigated the irregularities and handed the report over Tokyo prosecutors, who promptly arrested Mr. Kikukawa and other individuals involved in the irregularities. If the charges are proven in trial, each could get a prison term of up to 15 years.

Copyright © INSEAD 2024. All rights reserved. This article first appeared on INSEAD Knowledge: https://knowledge.insead.edu

It is difficult to know what goes through the mind of someone who makes such an obviously bad decision as Mr. Kikukawa (and the Olympus board that supported him). An interesting clue comes from the fact that as the Chairman of the board he had a very powerful position in the company, but Mr. Woodford's investigation of the accounting irregularities made this position unstable. In a study by Jordan and coauthors, this combination of high power and low stability has been found to lead to more risky decisions than either stable and high power, or low and unstable power. This is because having something to lose is stressful, which can lead to risk taking beyond the level of those who have stable high power, or those who have low but possibly increasing power. In short, someone powerful who is trying to control a potentially serious threat is likely to make decisions that look puzzling to others.

So the prosecutors have made their move, but this has not prevented Olympus from putting in place management much like the previous one, and a board heavily dominated by banks. What about transparency, rethinking of the strategy, or a greater voice to the shareholders? That does not seem to be on the agenda. But the same paper by Jordan and coauthors also found one more thing: those who have low and stable power also take high risks. So maybe a rebellion of shareholders is brewing?

Jordan, J.J., N. Sivanathan, and A. D. Galinsky. 2012. Something to Lose andNothing to Gain: The Role of Stress in the Interactive Effect of Power andStability on Risk Taking. Administrative Science Quarterly, 56(4): 530-558.

Find article at

https://knowledge.insead.edu/entrepreneurship/olympus-cover-beware-unstable-power

---

About the author(s)

Henrich Greve is a Professor of Entrepreneurship at INSEAD and the Rudolf and Valeria Maag Chaired Professor in Entrepreneurship. He is also a co-author of **Network Advantage: How to Unlock Value from Your Alliances and Partnerships**. You can read his **blog** here.

Copyright © INSEAD 2024. All rights reserved. This article first appeared on INSEAD Knowledge: https://knowledge.insead.edu