

1st Case – Toshiba

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1. How can the fraud triangle be applied to explain Toshiba's fraud and reveal the motives behind it.

The fraud triangle is composed of the following 3 elements: opportunity, financial pressure and rationalization.

Recovered emails at Toshiba showed that the irregularities in their accounting practises were not simple errors but intentional manipulations. What was found were overstated profits in various Toshiba units, underestimated total costs and untimely recorded losses.

The rotation of personnel made it possible for people to focus on immediate goals, ignoring how projects were started and taking orders at a loss. The management had strict budget targets and pushed the personnel to achieve it. The invoices were also dated wrongly in order to delay the costs.

So the management put the pressure on its employees, who, in a Japanese culture of no denial to seniors, performed what was asked of them. Given that the people who started the project were no longer there and the new personnel had to deliver targets, they did not feel guilty, maybe, so the fraud went on. This is how the fraud triangle took place in this accounting scandal.

2. What are the issues at Toshiba from the point of view of its stakeholders (especially the investors)?

There are many stakeholders in this case: employees, management, investors.

From the point of view of subordinates I do not see too much what they could do because of the Japanese culture where superiors have a say and subordinates have to deliver without objections. So management had the power in their hands and they

should have taken the initiative to change things for a better governance and transparency in their processes in order to avoid fraud.

From the point of view of investors, because of the fraud committed, Toshiba has withdrawn the dividend that had been declared earlier, so the shareholders would not get their shares, consequently they would not have a good return on investment.

What are the ethical issues in this case?

The decrease in share prices on the stock market and the withdrawal of the dividend made the investors lose trust in Toshiba management.

What would you do if you were in the same situation as the Toshiba employees?

It is hard to challenge the seniors in Asian cultures, especially in Japan, so one needs to have a careful cultural approach to judge Toshiba low-rang employees in this case. Their management should be fully responsible for this fraud, because they were aware of their power and their culture, where subordinates do not have a voice. So if I were to be a Japanese, my hands would be tight and I wouldn't be able to do anything actually, apart from being that whistleblower and give a tip to the investigators, but I won't be able to challenge it openly with the management. Were this to happen outside of Japan, and if errors were to be discovered by me, I would address it to my seniors and bring it to their attention so that processes would be adjusted and more accountability would be established in due time, including audits, monitoring, segregation of tasks, accountability of responsibilities etc.

3. What options are available for the company moving forward?

Toshiba must establish policies in order to ensure that the following actions take place:

- Establish a control environment
- Establish risk assessment

- Design and establish control activities
- Ensure information and communication
- Establish monitoring procedures

Toshiba must also gain trust of their investors and prove changes have been implemented and establish better corporate governance practices, transparent processes and change of management, at times foreign nationals, even.

How can it prevent such fraud in the future?

- It is advisable to maintain a system of internal control.
- Corporate executives and boards of directors must ensure that these controls are reliable and effective.
- Independent outside auditors must attest to the adequacy of the internal control system.