Toshiba’s CEO, Hisao Tanaka, announced his resignation on Tuesday, along with eight other officials from the headquarters based in Japan, assuming liability for overestimated profits by 152 billion yen ($1.2 billion) over the past seven years. The biggest question which was raised at a recent press conference in Japan was – ‘Toshiba: Committed to People? Committed to the Future?’

The Japanese multinational conglomerate was founded in 1938 as Tokyo Shubaura Electric K.K. through its merger Shibaura Seiksaku-sho and Tokyo Denki. Over the years, they grew into a very successful company and became a worldwide-recognized brand.

In 2008, Toshiba corp. acknowledged a cover-up, where various parts of the business’ products, including computer software, personal processors and computer chips were struggling to sell in the market. This ultimately led their managers to alter their profits and set unrealistic profits in their books. In addition, one of their main businesses is involved with nuclear power, the company was affected by the Fukushima disaster, which left the public traumatised, and as a result no new plants were built and the existing ones were inactive.

At the news conference in Tokyo, Tanaka described his grief towards the company and the public, and announced his resignation, bowing down in deep shame. His colleagues, Norio Sasaki (vice chairman) and Atusutoshi Nishida (adviser), also announced their resignation along with six other members.

Tanaka told reporters that “we have a serious responsibility, the company will need to build a new structure, to reform itself” and expressed how this was “the most damaging event for our brand in the company’s 140 year history” (The Guardian, 2015).
The fraudulent activity carried on throughout the year, the company continued to falsify the accounts, showing an inaccurate financial situation.

Toshiba illustrates the true struggle occurring in Japan, which was also emphasized by Japan’s finance minister, Taro Aso, “If we fail to implement appropriate corporate governance, it could lose the markets trust. It’s very regrettable” (Al Jazeera, 2015). However, following this scandal in particular, no genuine improvements or incentives were provided for the Toshiba employees. Instead, the staff worked together for the company, in order to hide reports, such as Mitsubishi Motors Corp, where they had been trying to “save-face” since 2000 for many years.

Toshiba had a corporate culture in which management decisions could not be challenged, according to a summary of the investigator’s report. Employees were pressured into inappropriate accounting by postponing loss reports or moving certain costs into later years, which as a result showed the actions of the employees were not benefitting themselves.

The Olympus Corporation, manufacturing medical equipment and cameras was also involved in an accounting scandal, where the president, Michael Woodford had covered up its losses at the company in 2011, hiding $1.7 billion of losses over the past 13 years.

Mr Loizos Heracleous, Professor of Strategy at Warwick Business School, U.K, said that the businesses in Japan are “struggling in areas such as transparency and board independence compared with the global standard” (The Guardian, 2015). He also stated “The Toshiba Scandal will be seen in the context of the Olympus event, with investors wondering whether there is a pattern of account manipulation in corporate behaviour. Japanese regulatory authorities will need to reassure the markets that they are casting a watchful eye over Japanese corporations”. (The Big Story, 2015)
Toshiba have sent out their apology several times to shareholders, loyal customers and distributors in relation to this, and they feel that this breakout may have affected their business as a whole. There was no contingency planning incorporated into their business, in case profits were to ever decrease, which is why they had to cover up and propose the prevention scheme by playing with the numbers in the books. The rising of profits was not only carried out on one project, but was on several projects and across the entire company. The report for the investigation even claimed that they were not even breaking even on some projects, which is what lead to the inappropriate measures.

Following the scandal, Toshiba Corp. was removed from the Stock Index, which was a blow for the company’s sales and reputation. After Tanaka’s resignation, Masashi Muromachi, the acting CEO of the company, plans to reintroduce rigueur in the company’s accounts to avoid any mishaps. At a press conference in July, he indicated “I am strongly feeling the social responsibility of alarming and causing trouble to our 400,000 shareholders, including domestic and international investors, as well as our clients and the authorities concerned. We will devote ourselves wholeheartedly to regain your trust and revive Toshiba under the new management” (Fortune, 2015).

The company may still experience difficulties in their process of recovery, particularly with its home technologies, computer software and memory chips being less in demand. Also the culture of the company might have to change. In the past, they fostered a corporate culture in which things were dictated from above and as such, employees continually carried out inappropriate accounting practices to meet targets in line with the wishes of their superiors.

The reports are currently being processed, and Toshiba are waiting to see how much the stock market officials will be declaring for their fines, which is predicted to be a fairly large amount. It is unclear so far whether any of its employees will face criminal charges, or whether the company itself will have to face any official sanctions. However, based on existing evidence, Tanaka has decided to take on most of the responsibility, hence his sincere apologies and resignation.
As things stand, this scandal could be seen as a classical case of corporate crime, where responsibility lies with the whole organization. However, given the company's reports, the evidence would suggest that the CEO at the time should be held liable for the scandal – hence, a case of white-collar crime, with Tanaka being responsible for the hidden profits and false accounting statements.

Other accounting scandals, where a big portion of the blame would lie with the company directors, including Enron and WorldCom, indicate the fact that such issues are not just U.S specific problems, but they occur worldwide.

It will be interesting to see what lessons can be learned from Toshiba’s failure. Problems with Toshiba’s seemingly well-considered "hybrid" approach to governance clearly illustrate the tension and difficult trade-offs between insider and outsider perspectives.

Director independence is important for monitoring executive management, however failures by American companies during the 2008 financial crisis have also exposed the limits of independence and resulted in a renewed call for director competence. Toshiba made an effort to utilize the knowledge and experience of former insiders, in combination with independent directors, to ensure effective monitoring of management.

However, in this case, what was assumed to be a strength proved to be a two-edged sword, as the audit committee apparently failed to function with sufficient independence. Japan's corporate governance may be aided by a new corporate governance code for listed companies, which became effective in June, 2015. Under this code Japanese companies must now report ("comply or explain") with respect to a long list of governance issues. Although a clear principle recommending a minimum of two independent directors has claimed much of the attention, other new areas such as director training and board self-evaluation may have a greater impact on board functioning.
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