

Toshiba Fraud Case Study

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

The fraud triangle is made up of opportunities, financial pressure and rationalization which can be applied to the Toshiba fraud in the following ways.

Opportunity

This is where the workplace environment provides opportunities that an employee can take advantage of to commit fraud and the workplace lacks sufficient controls to deter and detect fraud ([Chapter 8 - Textbook Accounting.pdf](#)).

In relation to Toshiba accounting fraud

The staff at Toshiba found opportunities to manipulate and defraud the company when the company adopted the policy that, project initiators were not held responsible for any financial malpractice because they were laid off immediately once the project ends and so the incoming staff would be the ones to bear the responsibility and account for any financial losses during the former project manager. As such it encouraged the project staff to get involved in financial malpractices.

In addition to that, the untimely recording of contract losses, the rotation of the employees after every five years and the underestimation of the contract costs warranted the employees to engage in the fraud because they believed that they will never be caught given the weak internal control system of the company.

The global financial crisis 2008 proved to be a perfect platform to engage in malpractices as the fear of unemployment and lying off emerged in the mind of workers. It was a step easier to enforce unsophisticated policies that demanded profits and that was why the top executives inflated the profits of the company. The then CEO found it in the best interest of the company to ultimately recoup it from the crises irrespective of the damage it will possess on its accounting policies, procedures and practices.

Financial Pressure

In this, Employees sometimes commit fraud because of personal financial problems ([Chapter 8 - Textbook Accounting.pdf](#)).

In relation to the Toshiba Fraud

It was also noted that the employees were under the pressure from some of the executives to overstate the profit in order to reach the target profit. According to the investigation, “a company-hired personnel found top executives pressured underlings to inflate Toshiba line for three years” <https://www.hurriyetaidailynews.com/toshiba-management-faces-investor-wrath-over-accounting-scandal--89184>. As such the staff thought that the company is making a lot of money while their pay remained constant which resulted in financial malpractices engagement.

The global financial crisis had a pinch in the pocket of the employees and as a result they had to get involved in financial malpractices in order to cope up with their financial needs.

Rationalization

It is a mindset of a person to commit unethical while justifying the course of action

In relation to Toshiba fraud

The other factor on the fraud triangle that contributed to fraud is rationalization. In this case the employees justified their fraud because some of the executives encouraged them to manipulate the company costs/losses to show the positive side of the company. In this case of Toshiba the employees also wanted to maintain their salesman syndrome which according to the Japanese culture was a state of being too loyal to the authority which forced the employees to agree and collude with the top executives to defraud the company.

2. What are the issues at Toshiba from the point of view of its stakeholders?

According to the point of view of the stakeholders, Salesman syndrome was one of the serious issues that led to the financial malpractice at Toshiba Company. Here, the employees were too obedient to the executives who were involved in the fraud that they did not question the actions and did not mind of the later consequence of the practices.

The diversification of the Toshiba companies led to Economies of scale which perhaps led to the need of maintaining complicated accounting systems of cash-based system rather than a mix of cash-based and accrual-based systems coupled with the foul play at the company made it possible for the fraud to go unnoticed for a while.

The stakeholder after the result of the investigation realized that there were financial malpractices of underestimation of costs and the overestimation of profits which clearly showed that the financial malpractices at Toshiba Company was intentional and must have been there for quite sometimes. Therefore, the stakeholders in their mind knew that this was an intentional game played

by some individuals who colluded with the executives in the company to benefit themselves at the expense of the stakeholders.

The stakeholder knew that there was a problem with the internal control system. The inadequate adherence to the internal control system opened ways to the fraud that shocked and tarnished the image of Toshiba Company. For instance, the internal controls in the finance division, the corporate auditing division, the risk management division, and the securities disclosure committee did not function properly to identify and stop the inappropriate behaviors.

3. What are the ethical issues in this case? What would you do if you were in the same situation as the Toshiba employees?

The ethical issues with Toshiba company case according to Kantianism,

<https://businessethicscases.blogspot.com/2017/03/toshiba-abuses-accounting-policy-when.html>

“Toshiba’s actions were not moral because they stem from motivations of self-interest. Toshiba’s management concealed the losses on long-term projects to protect the reputation of the business they were working for. Additionally, Toshiba’s management had a personal interest in making sure that their salaries continued to be fulfilled. In conclusion, a Kantian would view Toshiba’s actions as unethical because they are irrational and stem from the wrong type of motivation”.

The lack of the need to challenge the management decision was unethical because according to the corporate culture of Toshiba the management decision was not supposed to be challenged though wrong which was part of the Japanese culture of salesman.

Toshiba toxic ethical tone at the top where the top executives pressured the employees to manipulate the accounting system to suit their interest at the expense of the company was a major cause of the improper accounting malpractices.

It was also unethical for Toshiba to lie to the public and to the shareholder by overstating the profit of the company which at the end of the day was not true.

The financial scandal that shocked Toshiba Company was an organized accounting fraud in which some of the executives and some of the employees colluded to defraud the company for their own interest. Conclusively, the act of collusion to defraud a company was unethical and unlawful.

Toshiba action was unethical when the executives failed to act within the limit of the law because it was illegal for a corporation under their leadership to report fake numbers and incorrectly manipulating the accounting principles.

If I were one of the employees at Toshiba Company in the same situation, I would do the following

- I would chose not to lie and cheat but would step up to intervene when I witness some wrong doing in order to safeguard my job and my personal career development.
- Professionals in a reputable company such as Toshiba are expected to exhibit individual leadership as a role model for maintaining the highest standards of ethical. As such I would distance myself from some of the executives who intentionally failed to maintain their ethical standard and decided to defraud the company.
- I would adhere to the principle of transparency by accurately representing facts, telling the truth in its entirety and communicating clearly and openly about everything the company does and says. Because this is the foundation of a strong relationship with customers and the stakeholders of the company.
- I would also abide by the legal regulations and obligations regarding the business activities of Toshiba. I believe that employees who work within the boundaries of the legal system are more credible, honorable and can establish a strong positive reputation of the company to the stakeholders.
- I would work in favour of maintaining and protecting the positive reputation of Toshiba to build a motivating work culture, keep investors engaged and provide exceptional service to customers and engaging in conduct that uplifts the company. If any action is taken to undermine a company's reputation, I would handle the situation at my capacity appropriately utilizing other ethical standards such as transparency, accountability and responsibility.
- Just like the gesture which was portrayed by the incoming CEO, I would accept responsibility for all decisions made as a company and admit our mistakes to all of those who may be affected by a misstep including shareholders and the public.

4. What options are available for the company moving forward? How can it prevent such fraud in the future?

According to the Investigators, they recommended that Toshiba should change its corporate culture, eliminate profit targeting practices, and establish better internal controls and a corporate governance system.

In addition to recommendations from the investigators, the other options available for the Toshiba Company to move forward are;

- The Board of Directors and senior management are in a powerful position to prevent fraud. By fostering a culture of zero-tolerance for fraud at the top of an organization can diminish opportunity for employees to consider attempting fraud in the long run.
- Hence forth, Toshiba Company should establish and monitor effective internal control systems that can deter frauds and determine where they can be strengthened.
- A solid anti-fraud policy must be put in place at Toshiba Company. Otherwise, employees might not realize the implications of their actions. A business must have documentation policies and a procedures handbook to clarify the company expectations, employees conduct and clear definitions of fraud and the consequences of violating the terms. These policies should cover every aspect of the business from tangible to intangible assets. One way of communicating a strict anti-fraud policy is by enforcing it from the beginning. This can be carried out through company introductions, company handbooks and training. This can help establish a zero-tolerance culture, and place an emphasis on fraud being unacceptable within the company.
- Toshiba Company should ensure Job rotation and mandatory vacation which will force employees to take time off or change job roles. This is because employees who commit fraud tend to continuously working in order to conceal or cover their fraud. However, when the employee is forced to perform another job or take a vacation, the employee will no longer be able to hide their fraud activities.
- The other strategy that Toshiba should adopt while moving forward is fraud education and awareness. It is important to raise awareness through a formal education and training programmes as part of the overall risk management strategy. Particular attention should be paid to those managers and staff operating in high risk areas, such as procurement and bill paying, and to those with a role in the prevention and detection of fraud, for example human resources and staff with investigation responsibility.
- An important aspect to encourage accountability and transparency within Toshiba Company is to adopt a mechanism that enable all individual employees to voice concerns internally in a responsible and effective manner when they discover information which they believe shows serious malpractice. Implementing an employee whistleblowing hotline gives the employees a voice to confidentially report workplace concerns and enables you

to identify and rectify problems before they damage your business, reputation and employee morale.

- “It is also important to have pre-numbered financial documents such as invoices, purchase orders, checks, keep checks locked up, have a “voided check” procedure and never sign blank checks. Review all disbursements regularly.
- Segregation of duties of employees is very important if Toshiba Company has to move forward in a fraud free manner. The company should divide activities so that one employee doesn’t have too much control over an area or duty. Separate important accounting and account payable functions. The person who has custody of the checks should never have check signing authority. The person opening the mail should not record the receivables and reconcile the accounts. Proper authorization and documentation of transactions, ensuring that employees aren’t exceeding their authority
- Conduct annual audits as well as regular independent internal verification to check on performance, inventory counts, account reconciliations and general ledger balances or other procedures to verify compliance with policies and procedures. This will make all finance staff to keep things honest because they can never be sure what questions an auditor is going to ask or what documents an auditor may request to review” (<https://i-sight.com/resources/10-essential-tips-for-preventing-corporate-fraud/>)

References

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