

## **TOSHIBA: ACCOUNTING FRAUD**

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

The fraud triangle pinpoints the three major factors that contribute to fraudulent activity: **opportunity**, **financial pressure** and **rationalization**.

In the case of Toshiba's, we can see the lack of quality audit internal controls as a major **opportunity** for the evildoers to approach. A good audiation system would have detected the malicious activities that were occurring during the period of the fraud like the improperly valuation of inventory or postdating invoices.

The policy for constant rotation of employees created **financial pressure** over the company, where the newly assigned employees were expected to comply with previous financial objectives despite the fact that some of the were incurring in financial losses. Having an organizational culture that would privilege short-term financial goals in detriment of sustainable long-term goals would add to this financial pressure over the employees.

Finally, a **rationalization** for the wrongdoing was becoming apparent in that the company needed to sustain their profitability scores to their shareholders. The profit targets previously established were so harsh even on top of the 2008 financial crisis that by not going after the fraudulent activities the executives would probably face some career problems or even termination.

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

Toshiba has been removed from the Dow Jones Sustainability World Index and a devaluation of company earnings by 152 billion yens were made public for its investors. The conjunction of these events led to Toshiba's loss of credibility among their shareholders which led the company shares to plummet around half the original price of a couple of months prior, which led to major financial losses among investors.

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

A major ethical issue is the loss of trustability of Japanese companies. Japan's finance minister called it a blow to the country in regaining the confidence of global investors. Toshiba compromised its own values for short-term financial goals. Instead of dealing with its financial problems head on, it preferred to take a short-cut which led to even bigger problems.

As an employee, one of my first courses of actions would be to search for another opportunity. Toshiba's massive distrust forced the company to sell lots of their assets, which would probably lead to firings among its sectors.

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

Learning from their mistakes, great steps forward would be to implement better accounting controls such as the segregation of duties, better documentation of procedures and a revision of some institutional policies like the employee forced rotation and the forced short-term financial goals. Another important action is to promote changes in the organizational culture, incentivizing employees to challenge superior management decisions.

Employee training and the revision of current board members would be of importance as well. An extra option that would be interesting is to hire an external financial auditing company to help regaining market trust.

