



Hayek Global College

MBA Class

Business Street Smarts

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Case Study 1 – The Toshiba Accounting Fraud

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

As we studied in classes, there are three requirements we can select that are indispensable to create a fraud scheme: opportunity, financial pressure, and rationalization.

Complementing this information, Professor Burke Files has taught us that most part of frauds are discovered by tips from someone. This was the case of Toshiba's fraud, where some third information came to the authorities which were able to understand what they frauded, and this source is even today on secret.

As one of the most important companies in Japan, where the financial pressure is even bigger because of the cultural importance of honor, the company saw the opportunity of hiding their selling problems and started to manipulate their accounting to keep the investors in the company, maybe thinking that the inconsistencies would not be discovered as Toshiba were so trustable and solid among all these years.

About the motivations, these are clear: if they reveal the real status of their numbers, the leaving of investor could mean the even quicker end of the enterprise.

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

The stock exchange is an instrument where investors (savers) use their money to borrowers, who then apply the amounts to grow their companies and/or pay dividends.

When there are, even if rumors, that a company is not following these concepts in a healthy way, or that they are even acting fraudulently, as is the case with Toshiba, then investors withdraw their applications and leave the company in an even more difficult situation, as investors correctly fail to see a very prosperous future for this company.

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 are that they were deceiving people, not only the investors themselves, but also the citizens of the country and its consumers, who were unconsciously sustaining a bubble, and that when this bubble is burst, it brings great consequences, such as loss of company value, layoffs in mass, and large negative impacts on the entire economy of the country, and in some cases, even the global economy, all while under ethical conditions, people could have taken other decisions that they considered safer and more correct.

The employees in this case are victims too, unless they had the known about all the problems and frauds the company were doing. So, there is not much choice to the employees, and me in the same situation, would try to organize all the employees and create a representation to negotiate the conditions with the higher executives, trying to find a way to keep the company (now with good acts), and keep the jobs, which is preferable to everyone involved.

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

The best way to the company moves forward is first be honest with the public, the investors, and the consumers. Talk to them is the simplest and the most important thing, to apologize about the fraud, and convince them about the regretting, and wiliness to change their culture.

After that, they need to find the motivations that took the enterprise to this declining, understand why the sales fall, why their profits were not good, and do the necessary method to revert it.

Allied this, a very good compliance is recommendable, to prevent new fraud cases, and to keep the investors comfortable about investing again in the company, as much of them are never interested in investing again in a company who is not trustable anymore, and maybe made these people lose a lot of money.

And other good management are possible to be done, they need to feel the market and search for new partnerships, products innovation, and keep increasing even if in a slower way.