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Toshiba scandal indicates troubled corporate governance across Japan

24 July 2015 by Pooja Kondhia



The Toshiba scandal, which saw the electronics giant admit to years of profit inflation, indicates wider corporate governance troubles in Japan.

Leo Martin, director of business ethics and compliance advisers at GoodCorporation told Governance and Compliance magazine that ‘the events at Toshiba hint at a serious problem in Japanese corporate culture. Our own experience of working in Japan is that employees are very loathe to speak up and challenge management.

‘All too often, the culture is overly consensual, fearful of challenge and strongly discouraging anyone from dissent.’

Over the course of several years, Toshiba overstated its profits, in total inflating operating profit by 151.8 billion Yen (£780 million). The overstatements were known to top management, which were in the region of triple the company’s actual profits.

Hisao Tanaka, the company’s president and chief executive has resigned and will be replaced by Toshiba’s chairman, Masashi Muromachi, until a new chief executive is found. Norio Sasaki, vice-chairman and Atsutoshi Nishida, an adviser to the company, are Tanaka’s predecessors and they will also leave.

Martin added: ‘One of the biggest shocks about the Toshiba story, is the fact that the company had been widely applauded for its corporate governance and for bringing in independent non-executives into its Board. Yet these corporate governance changes appear to have failed in their basic duty, namely ensuring that the company reports its activities accurately to shareholders.’

Comparing the scandal to the Olympus fraud, Martin commented that true change at the company must involve ‘a radical management shake-up and [to] develop a culture where there is genuine challenge both from independent non-executive

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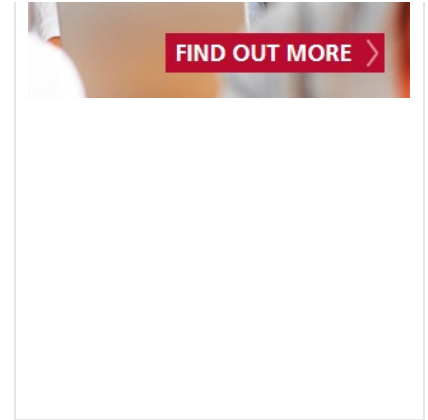
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directors but also a speak-up culture allowing managers and employees to raise concerns’.

Auditors are also to blame here, says Martin – in Toshiba’s case, its auditor Ernst & Young ShinNihon – as all too often it appears ‘auditors forget that they are working for the shareholders of the company and also for the wider society to maintain its trust in publicly traded companies’.

‘[Auditors] can only do this successfully if they maintain genuine independence from management’ explains Martin. ‘It is high time that the auditor’s role be split from other services to corporates to make the audit activity genuinely independent. While auditors continue to make money from providing consulting services, tax advice and corporate finance advice to audit clients, we run the risk that the audit itself will lack proper independence and management scrutiny.’



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