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# Crisis of the Week: Accounting Problems Hobble Toshiba

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Reuters

*The crisis this week involves the actions taken by [Toshiba Corp.](#) [6502.TO +0.65%](#) in the wake of an accounting scandal that saw the company [overstate earnings](#) by more than \$1.2 billion over seven years. The fallout from the scandal escalated last week, when the company announced the [resignation](#) of Chief Executive and board Vice Chairman Hisao Tanaka and a [reorganization](#) of its board in which half the members are stepping down. A report from the company into the overstatement said its three most recent CEOs all played roles in inflating the company's operating profit.*

*Looking only at the statements of company officials, and the actions taken in removing the CEO and reshuffling the board, we asked the crisis management experts how well has the company handled this crisis? Where has it done particularly well? Where has it fallen short? What should it do next?*

**Jennifer Vickery, CEO, National Strategies Public Relations:** “Toshiba has a 140-plus-year history and a culture of established hierarchy, as well as additional blemishes, but none at the magnitude of the accounting scandal. This type of ‘error’ doesn’t happen without specific and particular decision-making and collaboration amongst the executives at the company. It takes many people to be able to...protect this level of information for over seven years. The public, particularly in the U.S., can often forgive companies in crisis, but for unintentional or lapse-of-character type issues. Intentional harm and wrongdoing isn’t something that is particularly negotiable with the public.

“Toshiba’s communications from this point do appear sincere, apologetic and swift—and include appropriate course-correcting thus far. This will help the company in the uncertain future it has. What Toshiba has done well is issuing an apologetic statement and committing to taking the situation seriously. Their statement was well-written and didn’t come off forged with insincere meaning or as too ‘canned.’

“Additionally, its actions matched its statement since the executives involved in the scandal stepped down and change is in progress. Although the scandal has been in Japanese news before hitting the U.S., the move still is considered to be done pretty swiftly in regards to the size of the company and people involved.

“Toshiba should continue the trend of the restructuring process and emerge with a transparent slate; expecting to give up profits for a while. Consumers, partners and shareholders will and should be hesitant now and for a while in the future. However, if Toshiba handles the change and moves forward with transparency and consistent communications to the public, it can find itself in a better position than originally predicted.”

**Ira Kalb, assistant professor of clinical marketing, USC Marshall School of Business:** “Toshiba is apologizing profusely in the wake of a financial scandal that has prompted the CEO, Hisao Tanaka, and half the board of 16 to step down. In his apology to stakeholders, Mr. Tanaka said, ‘This has resulted in the largest damage ever to our corporate image.’ He is right. Toshiba is a 140-year-old company that is one of Japan’s best-known brands. A scandal in which Mr. Tanaka and his two predecessors collectively overstated operating profit by \$1.22 billion is already causing serious damage to its reputation. By admitting culpability and taking swift action to remove the top executives responsible, the company is taking the right first step.

“Many believe that the main catalyst for this scandal was the autocratic corporate culture practiced by Tanaka and his two predecessors. They pressured business units to achieve unrealistic sales targets in the aftermath of the 2008 global financial crisis and the earthquake, tsunami, and nuclear disaster that followed in 2011. It’s a serious violation of corporate governance that it took an outside investigation to uncover irregularities practiced by three consecutive chief executives—damaging the company’s image and compromising the public trust.

“What should Toshiba do? Transform its board and top management from autocratic insiders to market-driven leaders with impeccable reputations. Focus on profitable core businesses, and sell noncore assets. Continue to line up bank credit for penalties and cash flow requirements. Effectively communicate that it has ‘cleaned house’ and installed a new management, corporate culture and image so this scandal won’t reoccur.”

**Davia Temin, principal of Temin and Co.:** “It is extraordinarily difficult for a company to buck its own tradition and culture. Japanese companies have always been opaque and less than communicative, and are not known for admitting to misdeeds until they are absolutely forced to—and sometimes not even then. Much pain could have been avoided had they owned up to their problems quickly, rather than doubled down through denial. Now is the time to show it is serious about changing corporate culture. Nothing less will quell the massive crisis of confidence Toshiba has created.

“To be sure, in the face of incontrovertible evidence, Toshiba has acted more quickly and decisively to show ‘accountability’ after the fact than almost any other company in a Japanese corporate scandal. The CEO and other

leaders, plus half of the board, have stepped down immediately, issuing authentic-sounding apologies. But that is hardly enough. Not only must heads roll, and practices change, but it is time to turn corporate culture on its ear.

“[The] business needs to take a page from the playbook of Pope Francis. This new pope is turning Vatican tradition and culture—easily as entrenched as Japanese culture—upside down, systematically breaking every ‘rule’ of papal behavior. My suggestion to cure [Toshiba's] crisis of corporate culture—follow Pope Francis’ lead. Take immediate steps to make glaring, symbolic change, the kind no one thinks it can. Then create a new code of conduct, at every level of corporate life, and begin to communicate it broadly and enforce it strongly. That is the only way I know to stop a series of crises that has been going on for years.”

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