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Toshiba accounting scandal raises calls for culture of quality

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Toshiba's £780m accounting scandal could have been avoided if it had pursued a culture of quality, according to an industry expert. CQI Fellow David Hutchins (pictured below right), an international authority on Japanese business and quality management, said the organisation had "resorted to deceit rather than the concept of Dantotsu [the Japanese term for number one thinking]".

Toshiba Chief Executive Hisao Tanaka was forced to resign after an internal investigation revealed the electronics giant overstated its profits by £780m. According to the findings, Toshiba had inflated its operating profits by 151.8bn yen in the past six years – roughly triple the company's initial estimate.

An independent panel said institutional malpractices and a corporate culture, in which employees were afraid to speak out against their bosses' about increasingly unachievable profits, were at the heart of the scandal. Tanaka said the company would need to "build a new structure" to reform itself.

Mr Hutchins, FCQI CQP, said: "The problems at Toshiba reflect the pressure that has confronted Japanese companies ever since their emergence from the catastrophic conclusion of World War II. As an island nation with virtually no natural resources, Japan has had to import almost all of its raw materials, turn them into marketable products and then sell them back to the same countries.

"To do this their products have had to be better quality, lower priced and at the forefront of innovation. For the first three decades the performance of competing countries was so poor that this was easy, but today it's different. Now, countries such as China and Korea are using exactly the same methods and are outclassing Japan product after product.

"The crisis of the Lehman Brothers bankruptcy in 2008 – known as the Lehman Shock – brought this to a head at Toshiba. Sadly, the impact on profitability was such that they resorted to deceit rather than the concept of Dantotsu."

Toshiba's overstatement is expected to lead to a restatement of earnings, a board overhaul and hefty fines. Tanaka is among eight high-level executives who have now resigned in the wake of the accounting scandal.



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