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*Review*

# Accounting Irregularities at Toshiba: An Inquiry into the Nature and Causes of the Problem and Its Impact on Corporate Governance in Japan

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**This research describes the largest financial scandal in recent Japanese corporate history. It explains how the Toshiba scandal expanded from a relatively simple case of accounting fraud to a company-wide deceit that involved dozens of managers and three generations of top executives. There are five main causes: domineering top management, compliant middle-managers who embody the worst of the salaryman mentality, duplicitous auditors, percentage-of-completion method accounting abuse, and the secular decline in several of the company's business lines. The research links the scandal to broader issues with corporate culture, governance, and accounting in Japan and suggests ways to improve the situation.**

**Keywords**: Accounting irregularities, earnings management, corporate culture, corporate governance, corporate restructuring, internal controls, percentage-of-completion accounting method, Toshiba

## INTRODUCTION

The world has experienced many serious accounting and governance scandals; these include BCCI (1991), HIH Insurance (2001), WorldCom (2001), Enron (2001), Kmart (2002), Arthur Andersen (2002), AIG (2008) and Satyam (2009). Their consequences have led to huge economic losses, job destruction, bankruptcies, massive restructurings and nationalization. Yet as bad that these business scandals were, they pale in comparison to the current experience of Toshiba Corporation. Toshiba is the very embodiment of Japan Incorporated; it is the apex of all that is good and big in Japan's business culture; and, its scandal has deeply shaken all participants in Japan's economy. Toshiba's fraudulent accounting became public knowledge in April 2015. At the initial stage the problem appeared to be a simple, and perhaps minor, matter of window dressing. Yet, as further information was revealed the scandal grew in proportion and bizarreness to involve several business units, vast amounts of money and dozens of managers including three generations of top leadership. Toshiba misrepresented its financial condition for years and disguised the progressive worsening of its business situation. Its auditor failed to alert stockholders, financial markets and regulators. It was a dramatic collapse of corporate culture that has caused great angst in business circles and even led ordinary citizens to wonder what has gone so very wrong with Japanese business. This research will examine the nature and causes of Toshiba's problems and also explore its impact on corporate governance in Japan.

**Scandalous Earnings Management In Toshiba**

Toshiba has a prestigious history spanning more than 140 years; it is famous both at home and abroad as an honorable member of the corporate community and a founding member of Japan Incorporated. Its only recent scandal occurred during the Cold War in 1987 when its subsidiary Tochibai Machine sold computer numerical control milling machines to the Soviet Union. This was a violation of rules established under the authority of the Coordinating Committee for Multilateral Export Controls. These rules were an attempt to stop the export of technologies with military applications. These milling machines were used to produce ultra-quiet submarine propellers and significantly increased the chance of a devastating nuclear war. The scandal involved the Norwegian company Kongsberg Defense and Aerospace (Kongsberg Vaapenfabrikk) and also seriously damaged the Japan-U.S. relationship. It ultimately resulted in the arrest and prosecution of two senior Toshiba executives and imposition of economic sanctions by both countries (Seeman, 1987).

In early April of 2014, Japan's business community and the mass of ordinary people were astounded to hear news of serious accounting irregularities at Toshiba Corporation. The news likewise surprised the entire globe. The *Financial Times*, reported that, "…for years, Toshiba, one of Japan's best known electronics brands, had been a poster child of the country's efforts to police corporate behavior." The newspaper continued to say that the irregularities left "Japan Inc. completely shaken" and created serious "doubts over the nation's corporate procedures" to manage internal controls in Japanese companies (Inagaki, 2015a). The accounting initially was reported to involve as much as US$1.2 billion of earnings manipulation through widow-dressing; it later ballooned to US$2 billion covering a period of seven years from 2008 to 2014. Unlike the Cold War scandal, this time Toshiba announced that it would conduct an all-round investigation of the accounting problem and find its underlying causes. The company promised to take all necessary measures to bring to light all aspects of the irregularities, provide redress to all affected parties, rejuvenate its management structure and establish good corporate governance.

**The Historical Development Of Toshiba**

The modern form of Toshiba was established in 1938 as Tokyo Shibaura Electric Company Limited by merging Tanaka Seizo-sho (Tanaka Engineering Works, which was founded in 1873) with Tokyo Denki (Tokyo Electric Company, which was founded in 1890 as Hakunetsu-sha Company Limited). Toshiba Corporation (Kabushiki-gaisha Toshiba) is popularly called Toshiba and adopted its current name in 1984. The company has experienced many restructurings, acquisitions and mergers during its long history. Table 1 below outlines the corporate history of Toshiba.

Toshiba's massive business growth coincided with Japan's pre-war and post-war economic development. The company received a substantial direct boost from the government during its early stage. Its predecessors were Tanaka Seizo-sho which was established to develop telegraphic equipment to meet government orders as early as 1873 and Hakunetsu-sha which was established in 1890 under the tutelage of the Imperial College of Engineering, which was part of what later became the University of Tokyo. Its goal was to produce light bulbs to meet domestic demand, which in that early period were entirely imported products. Both predecessors were genuine innovators; they invented and manufactured products that had been unknown in Japan. These included water wheel powered turbine generators, radio transmitters, telegraph equipment, incandescent electric lights, and double coil electric bulbs; all of these items were breakthrough products in those days and greatly contributed to the nation's modernization. Toshiba manufactured a number of Japan-first products, including radar (1912), the TAC digital computer (1954), transistor television and microwave oven (1959), color video phone (1971), Japanese word processor (1978), magnetic resonance image health devices (1982), laptop personal computer (1986), NAND memory and electrically erasable programmable read-only memory (1991), DVDs (1995), sub-notebook personal computers (1996), and high definition DVDs (2005). All these products strengthened Toshiba's position in the market and kept it competitive domestically and globally.

Toshiba expanded rapidly through the acquisition of heavy engineering and primary industry firms in the 1940s and 1950s. A number of new companies were created within the larger company group in the post-war period. These included Toshiba Music Industries, Toshiba EMI, Toshiba International Corporation, Toshiba Electrical Equipment, Toshiba Chemical, Toshiba Lighting and Technology, Toshiba America Information Systems and Toshiba Carrier Corporation. Toshiba acquired several major foreign companies, including

**Table 1.** Toshiba Corporation's History

| Years | Major Events |
|---|---|
| 1873-1890 | 1873 Establishment of Tanaka Seizo-sho (also called Shibaura Engineering Works) by Hisashige Tanaka under the auspices of the Meiji government's Ministry of Engineering<br>1890 Establishment of Hakunetsu-sha Co. Ltd. by Ichisuke Fujioka |
| 1891-1931 | 1899 Hakunetsu-sha changed its name to Tokyo Denki<br>1921 Tokyo Denki invented the double coil electric light bulb |
| 1932-1939 | 1930s The Japanese government bans production of home appliances<br>1938 Establishment of Tokyo Shibaura Electric Co. by merging Tanka Seizo-sho and Tokyo Denki |
| 1940-1956 | 1939-1945 Rapid growth with government orders for radios, vacuum tubes, generators and military supplies; loss of production capacity from Allied bombing<br>1946-1956 Production recovery and focus on manufacturing heavy electrical machinery and smaller electrical equipment; establishment of sales subsidiaries and exports to Southeast Asia |
| 1957-1972 | The booming of the Japanese economy leads to rapid growth in heavy electrical machinery, electronics and communications; development of original technologies, expansion of factory capacity and the building of new production facilities; and, the expansion of international business though overseas sales and manufacturing subsidiaries |
| 1973-1983 | Heavy investment in R&D in the aftermath of the 1973 oil shock; development of many national (and world) innovative technologies; improvement of production technology; achievement of high quality standards; shortening of delivery lead-times leading to higher profits;<br>1983 The English name Toshiba Corporation was adopted |
| 1984-1999 | 1984 The abbreviated name "Toshiba" replaced the former name Tokyo Shibaura Denki<br>1990s Adoption of the "concentration and selection" approach during the economic stagnation to achieve sustained growth; concentration of resources in high growth and potential new businesses; focus on semiconductors and the personal computer business<br>1999 Creation of eight in-house companies and delegation of greater autonomy and decision-making power |
| 2000-2015 | Increased focus on the "concentration and selection" approach; innovation and development of many world-firsts and world number one products and services; increasing emphasis on global competition; focus on restructuring businesses to reinforce earning growth; emphasis on transforming the overall business structure by targeting growth sectors and emerging businesses |

Source: Toshiba (2015b).

Brazilian Semp, U.S. nuclear energy producer Westinghouse Electric LLC, Swiss power-meter maker Landis + Gyr, IBM's point-of-sale business, and OCZ Storage Solutions.

Toshiba belonged to the Mitsui *zaibatsu* before World War II and is still a member of the Mitsui keiretsu; it possesses preferential arrangements with Sumitomo Mitsui Bank. (*Zaibatsu* were family controlled holding companies that operated industrial and financial conglomerates.). As of March 31, 2014, it had 200,260 employees, net sales revenue of US$63,131 billion (6,502.5 billion yen), 436,540 shareholders and is listed on the Tokyo and Nagoya stock exchanges (Toshiba, 2015a). In the year that ended in March 2012, 45 percent of its sales were generated in Japan and 55 percent in the rest of the world (Toshiba, 2012a). Its business is organized into five areas: energy and infrastructure, community solutions, healthcare systems and services, electronic devices and components, and lifestyle products and services (Toshiba, 2015b).

Toshiba is an innovative company and it invested enormous amounts in research and development in 2014. Consequently it was selected as one of the "2013 Top 100 Global Innovators" by Thomson Reuters. In 2013, it registered 4,623 patents in Japan and was ranked the fifth after Panasonic, Toyota Motor, Canon and Mitsubishi Electric. In the U.S. its patent count was ranked seventh after IBM, Samsung Electronics, Canon, Sony, Microsoft and Panasonic (Toshiba, 2014). Its significant products include air conditioners, consumer electronics, control systems (air-traffic control systems, railway and automotive systems, security systems, and traffic control systems), electronic point of sale equipment, elevators and escalators, home appliances, IT devices, lighting, materials and electronic components, medical equipment (computerized tomography and magnetic resonance image scanners, ultrasound equipment and X-ray equipment), office equipment, telecommunication equipment, personal computers, semiconductors, power systems (gas power plants, electricity turbines, fuel cells, nuclear reactors, thermal and hydro power systems), power transmission and distribution systems and thin-film-transistor liquid crystal displays (Toshiba, 2012b).

For much of the post-war period, many of Toshiba's products were at the early stage, or mature stages of their life cycles. They were either star or cash cow products; there were very few low profit product lines. The stars and cows have tended to yield high profits and provide high liquidity over a long period of time. So, it is painfully ironic that the 2015 accounting fraud was centered in the product lines that had once been so profitable. These stars had lost their luster and were actually becoming dogs. It seems that management was attempting to hide this long-term poor performance with earning manipulation for as many as seven years. So the problem is not just a matter of accounting fraud. It is related to more fundamental problems with governance and management. Toshiba managers did not want to admit the decline that these businesses were experiencing. They did not want to make the tough management decisions required to deal with failing businesses.

## Fraudulent Earnings Management And Its Underlying Causes

This section will discuss the accounting scandal at Toshiba Corporation and its underlying causes based on the business media and information disseminated by the company.

### (a) Faulty use of the percentage-of-completion method of accounting

Toshiba's operating profit was inflated by about US$4.1 billion over the three fiscal years from March 2012 to February 2015. A large part of the problem stemmed from improper use of an accounting method called "percentage-of-completion", which is commonly used in long-term projects. Under this method, sales and expenses are reported in an accounting period based on the progress toward completion by the project in the period (*South Coast Today*, 2015). More specifically under this non-cash flow method, the accounting treatment for contract work in a fiscal year is estimated and the income and cost of the contract for the current accounting period is reported on that basis (Independent Investigation Committee or IIC/Toshiba, 2015). Toshiba claimed that the problem was caused by work in electricity generation, railways and related projects; these groups had focused too much on attaining their profit targets by improperly lowering expenses in the near-term periods. Managers did this in the knowledge that it violated the principles of the percentage-of-completion approach. The initial reports of abuse of percentage-of-completion accounting were confirmed by the Third Party Panel (IIC), but the number of devious projects was expanded to include fifteen projects.

Specific examples of accounting irregularities that manipulated profits were the logging of more than ¥200 billion in operating profits in 2008 after the bankruptcy of the New York investment bank Lehman Brothers, overstatement of profits for the home electrical appliance division, intentionally misleading reports in the hope of winning new project orders after the Great East Japan Earthquake in 2011, overstatement of profits for electronic toll collection systems and overseas subway projects in 2011, overstatement of profits by more than ¥100 billion in the computer chip, PC and TV businesses in 2012, and overstatement of profits for smart meter and overseas electrical substation projects in 2013. Most of these fraudulent accounting events were a result of the chief executive officer's (CEO) refusal to recognize the loss. In some cases, the division managers claimed not to have knowledge of basic accounting principles, though in other cases management admitted that they intended to postpone the losses. The common element in all these cases was that the existing CEO demanded in the strongest terms that division heads meet profit targets (*Japan News*, 2015a).

As articulated by the IIC, Toshiba has a corporate culture whereby employees cannot go against or act beyond the wishes of their superiors. When so-called target profit "challenges" were given to them by the top executives, division heads along with their subordinate managers and employees were "forced" to resort to accounting fraud to "achieve" unrealistic targets (IIC/ Toshiba, 2015). The panel further found that the audit committee did not execute adequate internal control as the system was virtually dysfunctional in each division as well as at the corporate level. Although absolutely required to apply accounting principles correctly by honor, customs, laws and regulations, Toshiba's auditors did not report the improper accounting, nor did they make any effort to raise the irregular accounting practices at meetings of the audit committee, nor did they report the grave problems to the board of directors (IIC/Toshiba, 2015).

The fundamental problem with the percentage-of-completion method is that it requires an initial accurate estimate of total income and cost, including the distribution of these values over time. Yet long-lived projects are naturally subject to uncertainty. As new information is revealed, the cash flow and time-to-completion estimates must be revised to accurately reflect the true progress and profitability of the project. Ideally, honest managers will write down (or up) the profit and expenses of the project as this new information is revealed. This revision should be done on a quarterly basis (in Japan). The nexus of the problem is that managers exercise their own discretion on whether to recognize these changes in values. Toshiba's managers decided to selectively adjust these changes in value to fraudulently over-report their profits. The discretion given to managers, with the acquiescence of auditors, means that there is a real danger of overstated profits and sales and corresponding understatements of expenses as well as under provisioning for soured contracts and negative adjustments to goodwill (IIC/ Toshiba, 2015).

### (b) Low-price audit in Japan

The quality of audit in a firm and/or country depends among other things on national accounting rules, control by the government surveillance authority, corporate auditing rules, governance norms, audit fees and the time required to conduct an appropriate audit. Of these factors, the fee paid to the auditor plays a decisive factor in the determination of the quality of the audit, since the fee determines the type of staff the audit firm delegates to conduct the audit, the time such staff devote to the audit, the span and nature of the audit work (for example, whether the audit is limited or a full investigation). Price (2015) reported on his analysis of audits by GMT Research in Hong Kong on more than 2,330 listed companies with sales of $500 million or more in major developed countries, and interestingly found that Japanese firms pay their auditors on average 3.2 basis points of their turnover. This value compares with 5.3 in the UK, 11.8 in the U.S., and 5.6 for the world on average. Japanese companies pay least among the countries studied.

In view of the above, what is the condition at Toshiba? Its auditor is Ernst & Young (EY) ShinNihon, a leading audit company. Toshiba paid it and its related entities 1.5 basis points of its turnover; this amounted to ¥982 million (US$8 million) to audit its accounts for the financial year that ended on March 2014. According to analysis by Reuters, Toshiba's six-year average was 1.8 basis points (Price, 2015). Toshiba argues that this audit fee is appropriate as it pays fees each year "due to one-off events". Toshiba does not consider auditing services to be a profit center where cost-minimization is a priority. Rather, the company feels that is more important for it to receive "the necessary and sufficient audit" certification than to be concerned about the actual amount paid for audit services (Price, 2015). From this, there arises the concern of whether the auditor spent enough time to scrutinize Toshiba's books. As found by the third party panel investigation, for almost all accounting treatment issues it investigated, EY ShinNihon did not make any note of the anomalies. In Japan, accountants are paid by the hour at rates that are lower than the international average as well as being less than the rate paid in other advanced industrial countries. Part of the reason for this underpayment is that Japan once imposed a maximum limit on audit fees. Yet, this limit were removed about a decade ago; consequently, audit fees have gradually increased but still remain relatively low. This makes it difficult to attract and retain high quality staff (Price, 2015).

### (c) Corporate culture

Corporate culture in Japan, especially the lifetime employment relationship is said to be different from the rest of the world. Japanese people start working in a company right after their graduation from university or high school; they continue to work in the same company until retirement. There is relatively little mobility in the sense that workers change employers. This long commitment to the same company requires that employees maintain healthy interpersonal relationships and refrain from any action that goes against the interest of the company or the wish of their superiors. Although such things as whistle-blowing and union protections of workers' interests exist at a formal level, cases where workers expose corruption and unethical behavior are very rare. Lifetime workers in traditional Japanese companies join a community of fate where each person feels a greater loyalty to the company than to society.

Presidents and other top executives demanded outrageous profit targets and bullied subordinates to reach these "challenge" targets by any means. Of course, the word "challenge" was simply in idiom that meant that workers must use fraudulent accounting to reach these targets. As reported, "in one case, the top management issued an extraordinary directive that profits should be increased by ¥12 billion in just three days before the end of the settlement term, forcing front line operations to inflate profit" (*Japan News*, 2015b). The Third Party Panel noted in its report that Toshiba developed a corporate culture where employees could not object to their superiors' unscrupulous interventions, and that this made it a hotbed of persistent accounting irregularities. The corporate culture was to attach a God-like imperative to their superiors' orders at the expense of honesty, common sense, professional integrity and regulatory compliance.

Furthermore, the internal audit system in some Japanese companies is also lax and inefficient. In the case of Toshiba, the "internal controls that are supposed to monitor injustices within the company from an independent position failed to function" (*Japan News*, 2015a). Although Toshiba was said to be a pioneer in introducing outside directors to its board, it is hard to say that it was rigorous in including genuinely experienced and independent people. Of the five members on the audit committee during the period of the corruption, three were outsiders and two were former members of the Japanese Foreign Ministry. The Third Party Panel concluded that none of them had sufficient experience in financial and accounting affairs. Furthermore, the auditing firm EY ShinNihon was ridiculously inept; it completely failed to detect the overstated profits. In view of the scale and persistence of the fraud, one suspects that EY ShinNihon did know about the problem. It is likely that the auditor cooperated in hiding the scandal.

## The Colossal Impact Of The Fraudulent Earning Management

Right after the scandal became public knowledge, Toshiba's share price slumped due to the concern that its business performance was actually far worse than reported. When its president Hisao Tanaka declared that irregularities might happen in other operations, it raised the suspicion that the improper accounting of its financial statements could be widespread. The scandal was unveiled by related parties at the Securities and Exchange Surveillance Commission (SESC). In an attempt to mitigate the dishonor, Toshiba announced its intent to claw-back part of its senior executives' pay and to establish a third-party panel to investigate the matter (*South Coast Today*, 2015).

Considering the enormity of the fraud and its impact on perceptions of national corporate governance, the Tokyo Stock Exchange (TSE) ordered Toshiba to pay a fine of ¥91.2 million (US$750,000) (Inagaki and Wells, 2015). Moreover, the TSE put Toshiba's stock on alert from September 14, 2015. This means it must submit a report to the TSE on improvements to its internal controls and CG. Further evidence of fraud or a flawed report could mean the delisting of its shares. According to the TSE, the scandal has "eroded the confidence of shareholders and investors" and "exposed serious problems" with the firm's internal control structure. The company has reserved ¥8.4 billion in anticipation of a possible regulatory penalty (Inagaki and Wells, 2015).

The impact of this scandal on current and future investors is also colossal. Investors wonder which Japan Incorporated icon will be next to reveal major fraud. Of course the impact is greatest on Toshiba. On May 11, 2015 its shares plunged 16.5 percent to finish at ¥403.3. On the day of the initial disclosure (April 3, 2015) of the trouble Toshiba's share price was ¥512.4; it fell to ¥309 by September 15, 2015.

In the face of this scandalous situation, Toshiba suspended its dividend. This irked shareholders at home and abroad and devastated employee morale. About 70 shareholders inside Japan initiated a class action lawsuit in mid-December 2015; they demanded total compensation of ¥400 million for the stock losses due to the accounting irregularity (*Japan News*, 2015c). In addition, 50 shareholders claimed that they suffered losses due to the fall in share prices; they have filed a case with the Tokyo District Court seeking ¥300 million against the company, three former presidents and two former executives in charge of finance. Other shareholders have filed similar cases. The number of such plaintiffs could easily rise to as many as a 1000 (*Japan Times*, 2015d).

In line with recommendations of the Japanese Securities and Exchange Surveillance Commission, the Financial Services Agency (FSA) has imposed a fine of ¥7.37 billion on Toshiba (*Japan News*, 2015e). The SESC alleged that Toshiba had violated the financial instruments and exchange law by falsifying its financial reports and misled investors for several consecutive years, in that its bonds in the amount of ¥320 billion issued during the five years from 2010 to 2014 were sold based on fraudulent earnings information (*Japan News*, 2015f).

The scandal damaged Toshiba international reputation and introduced doubts about its abilities to meet its financial obligations, and Moody's downgraded its bond rating to junk level on December 22, 2015. The TSE has blocked it from raising further equity until at least September 2016 (Inagaki, 2015a). If Toshiba cannot regain investors' trust by properly redressing losses to all parties concerned, including restoring the confidence of CG surveillance authorities, more lawsuits and punitive actions will happen.

At the time of this writing, Toshiba has announced that its annual loss for the accounting year 2015 (April 2015–March 2016) would amount to ¥710 billion (about $6.2 billion)—up from an earlier estimate of ¥550 billion in December 2016. It attributes this additional loss to increased costs of energy and infrastructure projects, falling profits in its consumer electronic businesses and the growing costs of restructuring its lifestyle products businesses. At the end of the day this information became public, Toshiba's stock price had declined by 11 percent (King, 2016). The stock price fall is not simply a consequence of the market's evaluation of the loss, but rather reflects the loss of confidence in the company's management (*Japan News*, 2015g).

The impact on the human side of Toshiba's management is also enormous. Indeed much of the problem can be attributed to conflict in the views of two top executives, namely Atsushi Nishida and Norio Sasaki. These officers gave conflicting orders to subordinates, used abusive language, made subordinates rewrite documents, openly criticized each other, and even harassed subordinates (*Japan News*, 2015g). The unhealthy culture did not permit lower-level managers to go against the imperious demands of their bosses and directly caused the accounting irregularities (Nagata, 2015). This made the internal management environment very gloomy and influential former employees complained that they were ashamed of the company. Similar feelings might have been common among many employees from the top to the bottom of the hierarchy. Indeed, this is a devastating development for people who were proud of their company's 140-year history and its global success.

## Toshiba's Response To The Problem

In order to solve the massive problem of fraudulent earnings management and its devastating aftermath, Toshiba has undertaken a number of reform plans that range from a thorough investigation into the problem and its causes by itself and with the help of an independent investigation committee, disclosure of information to different authorities and the general public, renovation of its governance system, restructuring of management and

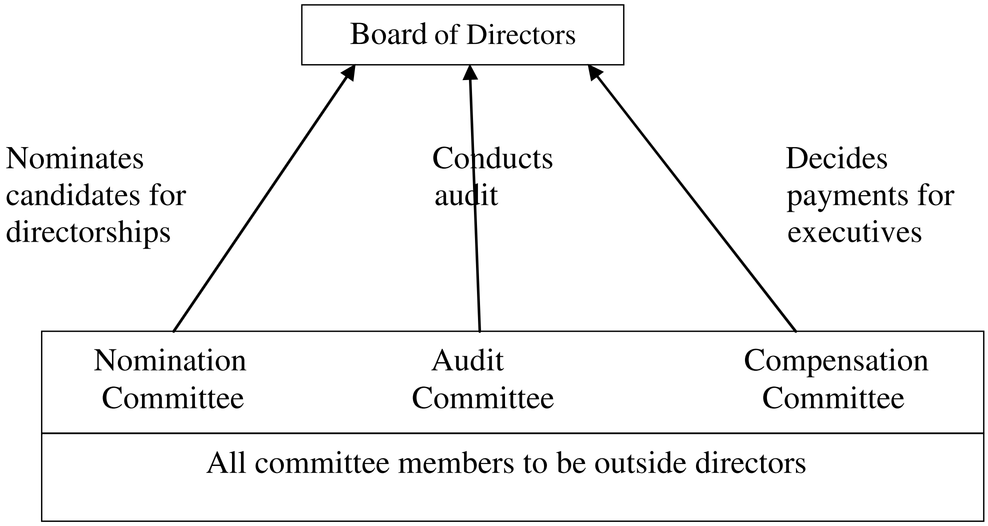


**Figure 1:** Toshiba's New Management Structure

has initiated litigation against the responsible executives.

### (a) Institution of independent investigation committee

In order to uncover the actual nature and causes of the problem, Toshiba instituted an Independent Investigation Committee (also known as the Third-Party Panel) of external experts that started their investigation on May 15, 2015. This panel submitted its report to management on July 20, 2015. It was disclosed to the public on the following day. The panel highlighted that the previous audit committee, which was composed of a majority of outside members and was headed by a former Toshiba employee (who was in charge of financial affairs), failed due to top management's desire to achieve high earning targets. It recommended the creation of a strong internal audit division (*Japan News*, 2015h). The management renewal committee, which was set up to discuss and formulate measures to prevent the recurrence of the accounting irregularities, seriously considered establishing a new audit committee composed entirely of outside members including lawyers and certified public accountants. This would enhance the independence of the audit committee and strengthen monitoring of the company's practices (*Japan News*, 2015h). The new audit committee will be delegated with adequate authority to check the operations of the company in order to prevent the recurrence of accounting irregularities. It is also planned to establish new measures to enhance internal control functions. The position of the chairman of the executive board, the core body of all management-monitoring measures, was recommended to be a university professor who was then working as an external member of the corporate board (*Japan News*, 2015h).

The Independent Investigation Committee also found that all three management committees—nomination, audit, and compensation—did virtually nothing more than approving executive appointment plans and corporate strategies drafted by the chairman, president and other directors. Toshiba itself believed that the problems stemmed partly from the failure of these committees to carry out their respective supervision of management (Kuramoto, 2015).

### (b) The decision to introduce a new management structure

On August 18, 2015 Toshiba announced a new management structure (Figure 1 above). The structure will reduce the number of directors from the current sixteen to eleven, keep the number of in-house executives at four and appoint seven outside directors. It was hoped that a smaller number of in-house executives with an increased number of external members would help prevent any irregularities in the future. This new management team would formally hold office from late September (2015) after receiving approval from an extraordinary shareholders meeting. Furthermore, outside directors will fill all positions on the three management committees for nomination, audit, and compensation (*Japan News*, 2015i). This is because, in accordance with the rules of Japan's *Company Act, 2006*, the nomination committee nominates the president and other executives of the board of directors and the compensation committee decides their payments. This is hoped to be a genuine check on their activities and enhance governance.

This proposed new structure is significantly different from the current lineup of twelve in-house and four external directors. As the new CEO Masashi Muromachi announced, the first and foremost focus would be to concentrate on implementing measures to prevent any more occurrences by tightening internal controls. Especially this move by Toshiba to bring in external directors for all key committees is extremely unusual in Japan. This move is also different from the traditional response to other major corporate scandals, such as Mizuho Financial Group in 2013 which had illegally extended loans to gangsters and Olympus Corporation which had falsified its financial reports for decades. Although both Mizuho and Olympus have hired more external directors in the aftermath of their scandals, both have in-house executives among their auditors and in audit committees (Kuramoto, 2015). The traditional response to corporate scandal in Japan does not fundamentally change the power structure or culture of the company.

In the new leadership system, directors should possess extensive and diverse expertise in corporate management. For example, Hiroyuki Itami has been retained as a board member. He was a professor at Hitotsubashi University, is currently a professor at Tokyo University of Science, and was one of the four external members of the previous board. He is also an acclaimed scholar of strategy, innovation, corporate governance and new paradigms of management. Another director is Yoshimitsu Kobayashi, who is chairman of Mitsubishi Chemical Holdings Corp., serves on the Japan Association of Corporate Executives as chairman and on the government administrative panel of the Industrial Competitiveness Council as a member. Other executives include Koichi Ikeda, an adviser at Asahi Group Holdings Ltd., Shinzo Maeda, an adviser at Shiseido Ltd., and Yuki Furuta, a former Supreme Court justice. Currently, Itami chairs Toshiba's Audit Committee and a panel that discusses measures to prevent accounting fraud and Kobayashi and Furuta participate in the panel meetings as observers (Jiji, 2015). Since eight of the board members have resigned since the fraud became public knowledge, there is no one with extensive knowledge of the company's business operations to assume the top post. Therefore, Masashi Muromachi started to work as president. His appointment, rather than hiring an outsider, was by a process of elimination; it was prompted by internal and external calls that the president should be familiar with the business of the company (Kuramoto, 2015).

This management shakeup has been considered by different quarters to be a reasonable compromise from the standpoint of business continuity and an in-depth overhaul of management with the practical goal of reviving the company and repairing its image. However, skepticism remains over the efficiency of the new board. It will be in a disadvantageous position when collecting strategic information and also there will be difficulties for the external directors to enforce genuinely effective internal controls (Kuramoto, 2015). Some critics have also suggested that keeping a member of the old, discredited management team will prevent real change of Toshiba's corporate culture and power structure.

### (c) The introduction of an annual vote of confidence on the president

In addition to the management reform plan described above, Toshiba has decided to introduce an annual vote of confidence procedure under which senior managers express their opinion on the ability of the president to run the company. An anonymous confidence vote will be held in November each year to grant a mandate from senior managers in about 120 positions including executive officers, department chiefs and branch managers, but excluding directors. The senior managers will select from three possible responses: "confident", "not confident" and "unsure". If 20 or more percent choose "not confident", an additional survey will be made to find out the reason, and the results of ballot will be given to the nomination committee. The committee will deliberate on the result of the vote and make a recommendation to the board of directors concerning the reappointment of the president (*Japan News*, 2015j).

Toshiba has adopted this idea of confidence voting in line with similar systems currently practiced by many small companies in Japan. As was reported in the *Japan News* (2015j), Osaka trading company Japan Stone Center Limited introduced such a system in 1993 and its employees vote to select candidates for directorships, including the president. In many European countries, there also exist systems that reflect employees' opinions on the appointment of the president and other executives. As is the case at Toshiba, most major and many smaller companies adopt the lifetime employment system. Hence, middle managers and senor employees up to a certain level should have more voice in strengthening internal controls, selecting executives and other corporate governance practices.

### (d) Restructuring the business

Although Toshiba had a tradition of excellent product portfolio management; in recent years when faced with strong competition from China, Korea and California, the company found that some of its products had become outdated and uncompetitive. Eventually, it decided to downsize by selling one such business unit, the image sensor plant in Oita prefecture. This facility employs about 1,100 workers and is involved with complementary metal-oxide semiconductor (CMOS) image sensors. The engineering and design employees were transferred to Sony (Toshiba, 2015c). To accomplish this, both companies signed a non-binding memorandum of understanding on October 28, 2015. It is envisaged that withdrawing from the CMOS image sensors business would allow Toshiba to devote its resources to products where it has a technological advantage and thus hopes to improve its profitability in the large scale integration system business (Toshiba, 2015c). The transfer is poised to include semiconductor fabrication facilities, equipment and related assets of Toshiba's 300mm wafer production line and will reduce fixed costs. Toshiba also announced that it will withdraw from the white light-emitting business, which is also a part of the semiconductor division (*Japan News*, 2015k; Toshiba, 2015d).

There are good reasons for Toshiba to choose its semiconductor business as the starting point of its business restructuring. First, although this division is quite sizable, its ability to compete was questionable. As of the end of March 2015, this division accounted for about 25 percent of its overall sales with about 34,000 employees (including the above mentioned 1,100 in the Oita image sensor plant) in both domestic and overseas plants and offices. The company has planned to encourage workers and employees to volunteer for early retirement and transfer to other positions. It is envisaged that this overhaul would affect about 2,300 employees or 7 percent of the workforce in the semiconductor business (*Japan News*, 2015l). Second, Masashi Muromachi, came from this division, and thus has great confidence in his managerial skill concerning this division. He was determined to show "his resolve" to recover from the scandal by choosing his own area of expertise as the first stage of the restructuring. This is clearly an attempt to sound hopeful. "(T)he restructuring decision, however, suggests it is only after the scandal that Toshiba can overhaul the unprofitable semiconductor businesses, left untouched—for years" (*Japan News*, 2015l). Toshiba clearly has great difficult addressing its unprofitable businesses. Third, the semiconductor business is responsible for about 20 percent of the fall in Toshiba's pre-tax profits. Hence, downsizing these businesses will address one of the major incentives of the fraudulent accounting (*Japan News*, 2015m).

As another part of these structural reforms, Toshiba is seriously considering the integration of its production of home appliances; it may transfer and consolidate the present production bases in China and Indonesia to Thailand. Besides this, it is exploring the possibility of selling its home appliances unit to the Innovation Network Corporation of Japan (INCJ), a government-backed development fund established in 2009, which would take a 100 percent stake after Toshiba spins off the unit. Furthermore, it is considering a major downsizing of its TV and PC businesses. Toshiba is anticipating market growth in its large scale integration of computer chips business, especially in areas like analog integrated circuits and motor control drives for automotive applications. It is poised to concentrate and consolidate its flash memory business, which it still considers a star product, by building a new plant in collaboration with U.S. chipmaker SanDisk Corp. at Yokkaichi in Mie Prefecture (*Japan Times*, 2016).

In addition to this restructuring, Toshiba has also decided to sell its medical equipment business Toshiba Medical Systems. Canon Inc. seems to be a strong candidate to acquire this business although Fujifilm Holdings Corp., Hitachi Ltd., and Konica Minolta Inc. are also potential buyers. Although Canon makes medical equipment like X-Ray sensors and fundus cameras, it does not manufacture magnetic resonance imaging systems and computer tomography scanners. Acquisition of such products from Toshiba will enable it to expand its medical equipment operations and achieve a further competitive edge (*Japan News*, 2016b). Toshiba is also exploring the sale of its properties and investments. It sold its stake in Finnish elevator maker Kone Oyj. Moreover, Toshiba has agreed with Fujitsu and Vaio (a spin-off of Sony) to set up a new holding company to integrate its personal computer business. This plan aims to achieve business efficiency by adopting cost cutting measures such as joint procurement of parts, strengthening of competitiveness, transferring of investment to an investment fund (Japan Industrial Partners) and finally consolidating the market share of its personal computer brand, Dynabook (*Japan News*, 2016c).

Toshiba's large-scale restructuring of its businesses is an attempt to finally start the long long-deferred adjustment of its product portfolio. The delay was made possible by the fraudulent accounting. The goal is to concentrate its resources in areas where it has a genuine competitive advantage. This is hoped to restore profitability and regain market confidence (*Japan News*, 2015m). As Toshiba CEO Muromachi said, his company aims to achieve a "V-shaped recovery" from fiscal year 2016 onward. Market analysts consider this reorganization in the electronics industry in Japan as a historical phenomenon that is necessary to establish new product areas that will soar to long-term success like the test flight of a new aircraft (Suzuki, 2015).

### (e) The lawsuit against Toshiba's former top management

In response to the vociferous complaints of shareholders, Toshiba established its Executive Liability Investigation

**Figure 2.** Directors Accused of Breach of the Duty of Care

| Name of Officer | Responsibilities Breached |
|---|---|
| Hisao Tanaka<br>(CEO, 2013-2016) | Breached duty of care in relation to recording of contract losses in two projects (in 2013), recording of profits in buy-sell transactions (from 2008 to 2014), and making inappropriate C/Os (from 2013 to 2014). |
| Norio Sasaki<br>(CEO, 2009-2013) | Breached duty of care in relation to recording of contract losses (from 2011 to 2013), recording profits in buy-sell transactions (from 2009 to 2013), and in relation to inappropriate C/Os (from 2011 to 2013). |
| Atsutoshi Nishida<br>(CEO, 2005-2009) | Breached duty of care in relation to recording of profits in buy-sell transactions (from 2008 to 2009) |
| Fumio Muraoka<br>(CFO) | Breached duty of care in relation to recording profits in buy-sell transactions (from 2008 to 2011) and monitoring and supervision (from 2011 to 2014). |
| Makoto Kobo<br>(CFO) | Breached duty of care in relation to recording of provisions for contract losses (in 2013) in three projects, recording of profits in buy-sell transactions (from 2011 to 2014), monitoring and supervision (in 2014), and making inappropriate C/Os (from 2011 to 2014). |

Source: Toshiba (2015e); *Japan News* (2015o).

Committee (ELIC). It is staffed with three outside legal experts to operate under authority of Article 847(1) of the Companies Act, 2005. Based on this committee's recommendations, Toshiba has filed a lawsuit against some members of the top management involved in the fraud. The panel investigated potential negligence by ninety-eight board directors and executive officers who were in office from March 2009 to December 2014. Although it was initially anticipated that about ten executives would be sued, the actually case was against the three previous presidents, Hisao Tanaka (June 2013 to July 2016), Norio Sasaki (June 2009 to June 2013) and Atsutoshi Nishida (June 2005 to June 2009), and two chief financial officers Tomio Wakamura and Makoto Kubo (*Japan News*, 2015n). The committee concluded that these executives did not execute their notification obligation and failed to fulfil their obligations to conduct accounting work with "due care" and that this caused damage to the company. Figure 2 shows the nature of the accused breach of responsibilities by each executive.

In this lawsuit, the company claimed combined damages of ¥300 million or $2.4 million, which would increase if the company finds additional grounds to seek further damages (*Nihon Keizai Shimbun*, 2015; *Japan News*, 2015n). In addition to these five executives, nine others were thought to be involved in the irregularities; but the panel could not establish that they failed to carry out their duty of due care. The remaining eighty-four executives, including the current president were found to have no responsibility to pay damages to the company (*Japan News*, 2015o).

On January 27, 2016 Toshiba paid a fine in the amount of ¥7.4 billion that was imposed by the FSA, and expressed its intention on the following day to increase the lawsuit's compensation demand to ¥3.2 billion on the grounds of greater damage. It added ¥2.6 billion of this fine to its compensation claim. Moreover, it had to pay an extra fee of ¥2.1 billion to its auditor EY ShinNihon LLC for the work of modifying its past earnings reports (*Japan News*, 2016e).

## Punitive Measures Against Toshiba's Auditor

Of all the reasons behind long-term and large accounting irregularities, the most serious and critical are collusion between management and accountants; willful negligence by accountants in carrying out their contractual auditing functions with due diligence and professional integrity is the key ingredient. From the above discussion, it appears that the Ernst & Young ShinNihon LLC failed to carry out its duties as an auditor. Not only is it the biggest domestic auditing corporation, it has been in charge of auditing Toshiba's accounts for sixty consecutive years; yet, its audit staff failed to detect irregularities for seven years. They failed to give guidance to management to improve Toshiba's accounting, nor to prevent the accounting fraud. It has thereby damaged professional auditing ethics and destroyed public confidence in the accuracy of financial records. Indeed, Ernst & Young ShinNihon's actions have contributed to a general suspicion and cynicism to all corporate activities in the country.

The surveillance authorities of professional accounting firms are the Japanese Institute of Certified Professional Accountants (JICPA), the Securities and Exchange Surveillance Commission and the Financial Services Authority. The SESC can recommend punitive measures to the FSA. In response to the Toshiba fraud, the FSA has issued an order to suspend EY ShinNihon from taking new business contracts for three months, and imposed an unprecedented fine, in the amount of ¥2.1 billion (*Japan Times*, 2015p). It named the seven accountants involved in the audit and accused them of failing to exercise due care and signing off on false financial documents. It mentioned that the auditing firm's operations were deeply improper, in that it failed to audit its clients' books with a critical viewpoint. Soon after this fine imposition, the audit firm announced the resignation of its chief executive Koichi Hanabusa and a pay cut of 20-50 percent for the 19 employees involved (Inagaki, 2015b).

Considering EY ShinNihon's failure to detect the accounting irregularities, Toshiba decided to terminate its audit contract and entered into a new contract with PricewaterhouseCoopers (PwC) Aarata to start from April 2016. Also in view of the sixty-year relationship with EY ShinNihon, Toshiba plans to review its auditing scheme every five to seven years to prevent the recurrence of irregularities and to maintain appropriate levels of distance from the audit firm. It also intends to share information more frequently and provide more information to the audit committee (*Japan News*, 2016e). Aarata has few contracts to audit manufacturers. Hence, it is hoped that Aarata will be able to exercise appropriate diligence and care because its staff will be less busy with the labor-intensive process of auditing manufacturers.

The JICPA in the meantime has urged EY ShinNihon to improve its management and is considering further punishments based on its bylaws. Any disciplinary action by the JICPA will be tantamount to warnings, suspended membership, or be an advisory order to withdraw from the institute. Although not yet announced, the JICPA may also urge the FSA to undertake disciplinary action against the audit firm (*Japan News*, 2016e).

## DISCUSSION—TOSHIBA'S ACCOUNTING AND AUDITING SYSTEM

Articles 431-435 of the *Japanese Companies Act* include provisions regarding the use of accounting principles and the types of financial statements to be prepared for a public company. The accounting must be subject to business practices generally accepted as fair and appropriate and pursuant to the applicable ordinances of the Ministry of Justice (MOJ). In addition to the MOJ, the Ministry of Finance (MOF), and Financial Services Agency under the Cabinet Office exercise control of accounting practices. In order to develop corporate accounting standards, the FSA established the Financial Accounting Standard Foundation or FASF in July 2001, with the Accounting Standard Board of Japan or ASBJ inside it.

There are three laws that govern financial accounting practices and reporting in Japan. Of these, the *Companies Act* applies to all public corporations. It is primarily concerned with the protection of creditors and shareholders, and defines how assets, liabilities, revenues, expenses and net income are calculated. It also provides guidelines for how financial statements are released to the public, be submitted to the shareholders meetings, and how any temporary financial statements should be made. The *Financial Instruments and Exchange Act* governs the information disclosure obligations applicable to all listed public companies. The *Corporate Income Tax Law* governs some accounting measurement issues, such as, income appropriation and tax deductions which are not covered in the other laws.

The ASBJ has developed 26 Japanese corporate accounting standards. These take into account International Financial Reporting Standards (IFRS) and other standards issued by leading national standard setters, especially in the U.S. (Nakoshi, 2006). In accordance with the disclosure concept of accounting, the corporation must transmit all material financial data either in the body of its financial statements or in explanatory notes. Especially, full disclosure is needed with respect to the method of charging depreciation, valuation of inventory and assets, declaration of dividends, director's remuneration, audit fees, business combinations, bad and doubtful debts, contingent liabilities, business buy-out or purchase and change of accounting methods. The company must give full disclosure of all material facts necessary for a complete understanding by third parties or relevant agents to aid their decision-making which might well be based on the financial statements. The Japanese *Companies Act* and generally agreed accounting principles (GAAP) also support the concept of full accounting disclosure.

Toshiba and other companies are bound to obey the rules, regulations, laws and authorities. However the size and persistence of Toshiba's fraud makes it undeniable that the company dodged all laws and deliberately mislead supervisory authorities. While Japan's laws and enforcement mechanisms are world-class, Toshiba's example makes it clear that their actual effectiveness is poor.

After the introduction of the Sarbanes-Oxley Act in the U.S., concerns about misleading financial statements increased in Japan. The Tokyo Stock Exchange introduced its own set of "basic ideas concerning corporate governance" which were required to be reflected in firms' financial statements. The focus on better reporting and less opaque decision-making has vital implications for the election of directors and auditors as well. These practices must be followed by all listed companies, including Toshiba.

All listed companies in Japan are required to include in their securities reports an item on the "Situation of the corporate governance". Two additional items, namely "Risk of business" and "Analysis of the financial position and the management result" are also required. This has created new obligations for management regarding disclosure of material facts in the report (Nakoshi, 2006). Both the *Companies Act* and the *Financial Instruments and Exchange Act* require companies to submit a business report for every accounting year together with a balance sheet, income statement, statement of appropriations of retained earnings, and supplementary statements to the MOF and the Securities and Exchange Surveillance Commission. The format, classification, extent of disclosure, and type of the supplementary information differ between these two agencies. The *Companies Act* requires the following supplementary information: (a) changes in capital stock and reserves, (b) changes in bonds payable and other debt instruments, (c) changes in fixed assets and accumulated depreciation, (d) amount of debt guarantees and collateral assets, (e) related party transactions, such as, with subsidiaries, directors, and controlling shareholders, and (f) ownership of subsidiaries (Singleton and Okazaki, 2002).

The MOF requires additional information disclosure, namely details of pension obligations, marketable securities and intangible assets. It also requires additional forecasts of capital expenditures and debt issues, a cash flow statement, and a six month cash flow forecast; yet, these do not need to be audited (Singleton and Okazaki, 2002). Companies that are listed on the stock markets and are therefore subject to the *Financial Instruments and Exchange Act* are required to submit consolidated financial statements including a balance sheet, income statement and cash flow statement (Singleton and Okazaki, 2002).

Japanese accounting principles, concepts, conventions, rules and reporting requirements are similar to those in other industrialized countries and especially the U.S.; however, many differences still remain. Japan has not yet adopted international reporting standards, rather it has developed its own standards roughly in line with those of the International Financial Reporting Standards. The standard setting process is complicated and slow.

Many accounting scandals also occurred in Japan in the 1980s and the 1990s and they involved acclaimed companies and auditing firms, even though Japan possess very fine accounting regimes, accounting and auditing standards and many surveillance authorities. Window-dressing went unnoticed and undetected since the actual regulatory regimes and protections are lax and the accounting and auditing professions are controlled by powerful business elites. Teikoku Data Bank (various years) reported that there were 10 fraudulent accounting/window-dressing cases in 2005, 17 in 2006, 35 in 2007, 44 in 2008, 25 in 2009, 40 in 2010, 59 in 2011, 57 in 2012, 52 in 2013, and 88 in 2014. These show the enormity of the problem in Japan. Most of these occurred due to accounting fraud, manipulated financial reporting, excessive window-dressing and violation of the compliance requirements. The example of Toshiba shows beyond any doubt that top management has the power and will to systematically interfere with the audit process.

## RECOMMENDATIONS, IMPLICATIONS, AND CONCLUSION

Audit firms in the general course of their business earn fees from their corporate clients. They are ethically and legally precluded from conducting duplicitous inspections. Therefore, they should refrain from cooperating with forged audits and report the irregularities to the authorities. Professional accountants in Japan who audit accounts and financial statements of their clients should refrain from all types of duplicitous audits and report any dubious case to the authorities in all possible ways, namely whistle blowing, reporting to the audit committee and executive board, or drawing the attention of their professional authority in the JICPA. Of course, this is merely stating the obvious; the whole point of an audit is to provide an accurate account of a firm's financial condition. A duplicitous audit that seems to satisfy the standards of care and diligence is simply inexcusable.

Shareholders need financial statements that reflect the state of affairs and management situations accurately. Public/professional accounting firms should therefore increase their awareness and professional integrity to meet the needs of their customers and the times. Japan is one of the top three developed nations in the world, and shareholders, investors, and even ordinary people expect Japanese auditors to exercise professional integrity without any hindrance or contractual bias from client firms.

Some firms appoint their auditors in a way similar to that of external board members and have them supervise firms from the viewpoint of outsiders. Such external auditors inside firms may reduce the possibility of fraud. Some countries mandate that companies change auditors periodically; in some cases, these changes are formalized through provisions in the companies' acts of incorporation. Something like this should be adopted in Japan. The FSA should scrutinize all problematic areas in the national audit system and install adequate preventive and improvement measures (Sato, 2015).

As per professional rules and conventional practice, auditors should receive fees that are commensurate with volume of work they need to perform to examine accounts and write audit reports. Compared to other developed countries, audit fees in Japan are far cheaper; yet, the volume of work auditors and their staff must perform is enormous. The size of the audit staff is also insufficient in comparison with the number of enterprises, institutions, and organizations, which require statutory audit. Japan as a whole needs more accounting and audit workers, and large corporations most especially need more accounting staff in proportion to the size of their business. Toshiba is a notable example of this wretched situation; it paid low fees to its auditors, who in turn did not examine the details of its accounts.

Auditors should have reasonable independence from their employing customers. As was the case for Toshiba, the auditors appeared to have independence, but apparently had a collusive relationship with top management. Perhaps the audit firm EY ShinNihon did not want to divulge fraudulent earning management over the seven years due to its profitable and cozy relationship with the management elites of this highly prestigious enterprise. As Toshiba announced in the meantime, it should change its auditor intermittently with due regard to laws and regulations and with full notification at the annual general meeting of the shareholders.

Unlike many other world-class companies in Japan, Toshiba implements international financial accounting standards. It has received many awards for its social responsibility and good governance practice. In order to more than satisfy the legal requirements, it had four external directors in its board. Ironically such external board members were found to be insufficiently experienced to perform their duties. There should be some controlling measures to ensure the qualification and experience of such auditors and to establish that such board members are not appointed in exchange for government favors or as a sinecure.

There have long been unamicable relationships among board members at Toshiba. For the greater interest of this and any company, senior management in a hostile relationship should be terminated to ensure team spirit at the top echelon. Feuds and personal vendettas among top management are simply toxic to business performance and governance.

In the U.S., the *Sarbanes-Oxley Act* was enacted in the aftermath of the Enron scandal and it received wide admiration over the world. Given the scale and deviousness of the Toshiba scandal, the response of the FSA seems both sluggish and inadequate in terms of pecuniary penalties and counteractive measures. All counteractive measures in this company should focus on prevention of the malpractice rather than mere compliance with regulations and implementation mechanisms.

The accounting irregularities took place in Toshiba over a period of seven years and tragically no whistleblowing or informal leakage of the scandal occurred. Whistleblowing is quite rare in Japan due to its unique employment practices and culture, which defame such acts as disloyal. Toshiba should establish an effective independent whistleblowing system and the broader corporate community should do the same.

Good managers must constantly reevaluate their products, markets, profitability, competitiveness and strategies. It is quite clear that Toshiba's management failed to do these things. Their "solution" to their weak product portfolio was fraudulent accounting. They failed to restructure and adapt to fundamental changes in the markets for their products. Perhaps the company's managers felt that Toshiba is too big to fail and so great that it is not subject to economic forces. This big business syndrome may the key reason why the company deceived the world about its accounts. The revelation of the accounting scandal is a wake-up call to undertake an all-round restructuring.

One of the most common practices in Japan is that when a crisis takes place in any part of society, people from different quarters come forward to deliberate on the issues in question, pinpoint the causes, and postulate countermeasures. One implication of the Toshiba scandal is that corporate management, professional bodies, academicians, researchers, intelligentsia, civil society, and government authorities may mobilize to make the basic changes necessary to prevent the recurrence of such horrendous scandals. When one considers Japan's history, there is indeed hope. Japan has faced many serious challenges and responded with meaningful changes that have led to success.

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