

Toshiba's Deep Darkness

Vice-President Toyohara is the embodiment of the culture of former President Atsutoshi Nishida, and Vice-President Hatazawa is the embodiment of the culture of former President Norio Sasaki.

Consequently, the fusion of these two individuals means a return to the business culture of "dark times" that caused countless grave problems for Toshiba, including the false accounting scandal and the concealment of the WEC collapse. Until now, Toshiba had been rapidly reforming the entire company in a short time, finding solutions to serious problems, firming up their business, and smoothly moving towards the path to corporate revival. But if those positive reforms are stopped and the company plunges into a closed and concealed state, they will be at the mercy of activists, and information concerning facts may be cut off from the outside world. This may lead to a sudden business selloff and the dismantling of the company. The careers of both individuals have been inward-facing and are unsuited for the overall business model of Toshiba, which covers a broad range of business segments. They lack the ability to generate a corporate vision across all business fields in a changing business environment and will be unable to utilize business resources to deliver results. Their understanding of capital policy is also shallow. Sooner or later, it is predicted that they will trigger a serious event that destabilizes the company.

For better or for worse, chairman Tsunakawa is an extremely malleable and softhearted person, so he is incapable of managing the two vice-presidents and leading them, and it is highly likely he will be controlled by their will.

1. Vice-president Toyohara is extremely close to former chairman Atsutoshi Nishida, and a manifestation of Nishida Culture... a dark person

Former chairman Nishida was well-known within the company for warmly rewarding employees who contributed in some way to him personally (including eliminating his political rivals and false accounting), rather than to company's business results. Although outside of the company he flourished in interacting with people in the overseas financial world by making good use of his native-level English abilities, within the company his character was extremely introverted, and he did not trust people outside of his faction.

Toyohara became part of management when he was appointed head of the Business Planning department in 2007 during the President Nishida era (2005 to 2009). When chairman Nishida retired as president in 2009, he was appointed to lead the home appliance business (treated as senior managing director) but did not produce any notable results as head of the Business Planning department. Therefore, the fact that he received preferential treatment could conversely be called evidence that he engaged in some sort of underhand work on behalf of former president Nishida. Despite deviating from the traditional career path in the Human Resources department (the Human Resources department was led by former vice-president Ushio, who is the same age as him), the reason he remained as an executive lies herein. He is someone with absolutely no trace of ability in business planning. This is a well-known fact within the company, but Toshiba's

Business Planning department relied heavily on consultants, traditionally paying them large sums of money to put forth their ideas as their own.

2007 to 2009: Head of Business Planning department (President Nishida; 2005 to 2009)

**WEC acquired in January 2006*

May 2009: President of Toshiba Consumer Electronics HLD (home appliance business)

June 2011: Senior Managing Director (supervising home appliance and lighting businesses)

**Income concealment was discovered at the company in December 2011 while Toyohara was president (2009 to 2013).*

The company admitted that it had concealed approximately 900 million yen of income during the period of March 2010 and filed a revised report with the Tokyo Regional Taxation Bureau. They found that as part of rebates paid to electronics retail stores, written confirmation of business talks, which form the basis for payment, were not created and therefore income was hidden by inflating business expenses. In addition, mistakes were pointed out in the filing period for approximately 2 billion yen of rebates. However, Toshiba Group's consolidated income was still in the red even after the revision, so no additional payments needed to be made. This incident is a representation of the false accounting tendency at Toshiba.

2013: Senior Managing Director (main representative for China)

2016: Senior Managing Director (Business Planning department supervisor) (President Hosokawa; 2016 to 2018)

2018: Managing Director (Business Planning department supervisor and Digital Transformation, Personnel and General Affairs department supervisor)

2019: Vice-President (Personnel and General Affairs department supervisor and corporate communications supervisor)

2. Vice-President Hatazawa used to be very popular, but now he is following the culture of former president Norio Sasaki

During the accounting scandal, the Nuclear Power department took the lead on the falsification, and the Thermal and Hydroelectric Power departments followed. The Thermal Power department (now called the Power Systems Division-PSD) and the Power Transmission department (now called the Grid Aggregation Division-GAD) that were behind the concealment of losses at large failed projects, passing the bill to Toshiba's future generations. Toshiba's energy business is comprised as follows: (1) Nuclear power (abbreviated NP), (2) Thermal and Hydroelectric power (abbreviated PSD), and (3) Power Transmission (abbreviated GAD). Currently, (1) and (2) have merged, and are called the Power Systems Division (PSD).

Until being appointed as an executive director, Vice-President Hatazawa was popularly known as the "last remaining conscience of the Nuclear Power department". In reality, what he did after becoming president of the separate ESS company was to secure his base by

fomenting an inward-looking mindset and giving an inordinate amount of preferential personnel treatment to people with a background and experience in the nuclear business. People coming from the nuclear business gave no thought to organizational balance. (For example, current CFO and managing director Hirata was promoted by former chairman Shiga, who was Hirata's superior when he was in responsible for WEC finances. Among employees, Shiga is said to have been in the gray area - extremely close to black - concerning the WEC problem).

The main positions among the ESS company staff are nearly all filled by people from the nuclear division (from the head of the Planning Department and below).

Even in the Power Systems departments following the merger, nearly all the main posts are filled by people coming from the nuclear division (from the head of the Planning Department and below).

Even in GAD, people coming from nuclear division, which is entirely unrelated business-wise, have been placed in the top positions.

Meanwhile, other departments have been hung out to dry. Specifically, GAD leaders who posted positive results and walked the traditional career path have ultimately been removed from the corporate ladder and transferred to subsidiaries. This has been due to bitter arguments (for raising reasonable arguments) regarding hydrogen business strategy with an individual coming from a nuclear power background (who later went on to become head of the Engineering team, then director of RDC at Toshiba head office, and then managing director), who flamboyantly spread a vacuous vision. (This remains true today.)

By eliminating the personnel in other departments with excellent leadership skills as a virtual future threat, and by promoting and securing subservient yes-men (who were less qualified to be promoted) who can be easily manipulated, these leaders have secured control over both the Thermal and Hydroelectric divisions, and the GAD. Onishi, who is now expected to be promoted to senior managing director, is a typical example of this.

ESS, which produced four consecutive company presidents until the appointment of former president Nishimuro (people coming from a nuclear division were inward-looking, so there weren't any until the appointment of President Norio Sasaki) was the core business of Toshiba and until now was said to be a treasure trove of talent; from directors to young leaders, they were comprised entirely of graduates from the universities of Tokyo, Kyoto, Hitotsubashi, Tokyo Institute of Technology, Waseda, and Keio. But looking at the directors past and present, as is quite obvious, this ranking has fallen around five places to the universities like Hiroshima, Hosei, private Kansai universities, etc. The business mistakes in the past have resulted in a talent drain, and worsened the business itself, and closed off any sign of change for the better. In addition, lowering the level of the department heads and the directors inevitably further lowers the level within the departments, and there is a similar trend at the levels of the department managers, sub-managers, and section chiefs. The overall organization is sinking. Managers, with no business ideas, are fomenting a top-down culture that forces intractable problems onto subordinates or the workplace, and the people in nuclear power must be obeyed no matter what.

The ironclad rule of the Nuclear Power department is a "top-down, inward-looking culture of an extremely *mura* (village/hierarchical) society". The nuclear power people are said to

be untouchable, since people coming from other departments who became leaders cannot control them in any way, no matter how much they try. As mentioned before, within ESS in particular, given the situation, even with attempted corporate (head office) involvement, as long as the Nuclear Power department leaders do not issue an order for strong cooperation, the characteristic is one of superficial obedience with absolutely no response. Even though the personnel have changed, the issue with the closed, inward-looking, *mura* (village/hierarchical) culture stemming from the President Sasaki years has basically stayed the same. Since his appointment as a director, for a little while, Hatazawa continued to emphasize that there was no need to report impairment losses with the WEC problem. The biggest reason that there was no information on the WEC bankruptcy coming not even from the Toshiba head office until the very last moment was because of the concealing tendency arising from the top-down, inward-looking culture of the extremely *mura* (village/hierarchical) society of the nuclear people. To give an example, successive department heads who possessed material (hidden) information were subsequently promoted as subsidiary heads and group company directors and supported the inward-looking system of not leaking even a single drop of information.

In other words, it is completely impossible for leaders from the nuclear power department to take a birds-eye view of the company and manage it across its length and breadth, and there is no chance of them having qualities of a manager, nor the skills to imagine things from a global perspective, access market information, or to cope with major trends and technical tides in the world, so they absolutely cannot make accurate business decisions on a large scale at Toshiba. They cannot even cope with a confrontation with activists. Conversely, regarding businesses other than nuclear power, it is highly likely that they view this in a dispassionate and detached manner and that it would be okay just to sell off or close these businesses if an issue arises, and handle problems as they come.

The leaders of the Toshiba nuclear power are, so to speak, village elders, and they are extremely skilled at drawing tight the organization's regulations into an extremely small world to increase certainty. For a business such as nuclear power in which the major presumption is 100% safety, this is perfect and extremely useful. However, they have absolutely no capability to defend matters including other business divisions on a broad scale, diversify viewpoints, cope with changes or resolve highly volatile problems. If, hypothetically, Hatazawa becomes Toshiba's leader, he will secure his base by appointing corporate subservient "yes-men" from the nuclear division as the main corporate department heads, in the same way as ESS, and this will inevitably lead to the formation of an extremely inward-looking system which will make Toshiba become even more inward-looking and concealing.

Mamoru Hatazawa

Career:

Born in 1959, joined the company in 1984, has consistently been part of the Nuclear Power Division.

July 2011: General Manager, Fukushima Restoration Support Technology Dept.

January 2014: Nuclear Power Division Manager

April 2018: President, Toshiba Energy Systems & Solutions (ESS)

June 2021: Vice President and Representative Director, Toshiba, in charge of business planning

<General evaluation>

He has excellent explanation and communication skills that give an impression of sincerity, but his abilities to conceptualize, execute, and perform (crisis) management are very poor. He is best suited as a symbolic president in times of peace when each business is independent and operating normally, but he is one of the worst choices for president in an emergency situation. Up until now, various problems became bigger because of his poor crisis management abilities. Because he doesn't have skills to conceptualize or execute, he could not make decisions and postponed matters, which resulted in worse damage. If he becomes the person in charge of Toshiba as a whole, it is very likely that the entire company will plunge into a new crisis.

<Role in past incidents>

- **Improper accounting (up to 2015):** He was responsible for the Kanagawa Heavy Particle Beam Therapy Project and Tomari Nuclear Power Plant Project, which were the first projects to be uncovered in the improper accounting scandal. In both projects, orders that were received at a loss were hidden, and cost increase recognition was postponed. Also, regarding the improper man-hour issue that continued to occur at ESS until 2020, he continued to disregard information from the sites, which resulted in the issue being reported directly to the headquarters.

- **Westinghouse (2016-2017):** He was the manager of the Nuclear Power department, which oversaw the acquisition of the engineering company Stone & Webster in 2015, which was the last straw. Setting aside the fact that Danny Roderick was the CEO of Westinghouse and also the person responsible for ESS as a whole, Mr. Hatazawa bears major responsibility as department manager because he was not able to understand the increasing losses and take measures quickly. Specifically, he did not understand (or he disregarded) delays in construction progress that he of course should have understood were a major risk, and when outside parties pointed this out, he insisted it was possible to recover, which put Toshiba as a whole into a bankruptcy crisis.

<Recent situations regarding problematic capabilities>

- **Ability to conceptualize:** Despite the fact that there have been major changes in the existing business environment, such as orders from major electric power companies, thermal power and nuclear power, since he became the president of ESS in 2018, there has been no indication of direction toward major changes in the business model. Also, despite the fact that the company is now at a critical time for transitioning from R&D to commercialization of individual desirable technologies (hydrogen, CCS, perovskite, etc.), no business concept for commercializing these technologies has been prepared, and there is a risk that it will be too late.

- **Ability to execute:** Despite the fact that ESS needs the most structural reforms due to the changing business environment, out of all the Toshiba's business companies, it has the lowest level of reduced fixed costs since FY2018. Also, regarding structural reforms at the Keihin plant that have become an issue, the work was completely delegated to those at the ground level, so the reforms have not progressed and have deviated greatly from the initial plan. In addition, strategies for expanding service-sales have been a superficial pretense towards head office, and there is no progress in terms execution on the ground level.
- **(Crisis) management capabilities:** His inability to detect (or ability to disregard) a deteriorating business situation has not changed over the years. Most recently, he took no actions regarding problems arising since 2018 in the TEPCO SCADA project. Toshiba incurred 3 major losses (as recently as FY2020) due to his willingness to leave the situation "as-is".