Wells Fargo: Where Did They Go Wrong?

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Introduction: What was the Wells Fargo Scandal?

According to Davidson (2016), the Wells Fargo scandal arose as a result of the intense pressure upon Wells Fargo employees (or, as Wells Fargo calls them, team members) to meet sales targets for cross-selling. Cross-selling refers to signing existing customers up for additional products. For instance, a customer with a savings account could be convinced to open a checking account, get a credit card, transfer a 401(k), or take out a mortgage with Wells Fargo. Employees found the sales targets too demanding to meet. As a result, employees began opening fake accounts in the names of existing customers. These phony accounts enabled the employees to give the impression that they were making enough cross-sales to meet their goals.

According to Reckard (2013), Wells Fargo employees employed such methods as ordering credit cards in the names of customers who never asked for them, forging customer signatures on applications and even prevailing upon friends and relatives to open accounts. Ochs (2016) reported that Wells Fargo's fraudulent practices resulted in the termination of some 5,300 employees and managers (although not the executive in charge), as well as record fines arising from a consent order between Wells Fargo and the Consumer Financial Protection Bureau.

In analyzing the Wells Fargo scandal, one must consider: (1) the driving considerations behind the decisions that caused the misstep; (2) what processes would have improved the decision-making process and led to a better outcome; (3) whether the protagonists were committing clearly illegal or criminal acts, or acts that were simply the result of negligence, lack of information sharing, poor decision-making, etc.; and (4) why the scandal was upsetting to the public and the press, and what values appeared to the public as having been compromised?

The Driving Considerations Behind The Decisions That Caused the Misstep

Tayan (2016) points out that, for many years, Wells Fargo enjoyed a reputation for sound management. In fact, this reputation enabled Wells Fargo to purchase the failing Wachovia during the 2009 financial crisis. Wells Fargo emerged from the 2009 crisis with perhaps the best reputation of any of the major retail banks. Its image was of a bank that had avoided many of the worst errors of other banks and that thrived on meaningful customer relations and focused sales efforts.

How could a bank with such a well-established reputation for doing scrupulous business have fallen into the trap of scandal? There appear to have been one major consideration and one subsidiary consideration. The primary consideration was an excessive emphasis on cross-selling. Tayan (2016) particularly notes that the practice of setting daily sales goals created excessive pressure on employees: "Branch managers were assigned quotas for the number and types of products sold. If the branch did not hit its targets, the shortfall was added to the next day's goals. Branch employees were provided financial incentive to meet, cross-sell, and customer service targets, with personal bankers receiving bonuses of 15 to 20 percent of their salary and tellers receiving up to 3 percent" (p. 2). Overwhelmed by this pressure, employees caved to it, resorting to setting up false accounts to meet their sales goals. The pressure to meet these sales goals subsumed the bank's ethical culture. A more minor, but still significant, concern was the apparently decentralized system of management. Tayan (2016) states, "Although the company maintains independent risk and oversight mechanisms, all senior leaders are responsible for ensuring that proper practices are embedded in their divisions" (p. 2). Adopting the objective of this kind of decentralized management created a climate in which an individual executive – in this case, Carrie Tolstedt, who headed the Southern California region which was the locus of the scandal – to create a problem which, although localized in real impact had negative effects that rippled through the entire bank, sullying its hard-earned reputation.

Processes That Would Have Improved Decision Making and Led to a Better Outcome

Interestingly, the processes that led to the scandal were at odds with Wells Fargo's existing mission and ethical statements. Verschoor (2016) observed,

> the marketing practices in question conflict substantially with the publicly expressed Vision and Values of Wells Fargo, which states that Wells Fargo strives to set 'the standard among the world's great companies for integrity and principled performance.' One of the five shared values states: 'We value what's right for our customers in everything we do.' The unethical behavior also differs greatly from WFB's Code of Ethics and Business Conduct, which notes that, 'At Wells Fargo, holding ourselves to the highest standards of ethical behavior is nothing new' (p. 20).

So, if Wells Fargo held its employees to such high standards, how was such a massive ethical failing possible? Verschoor (2016) concludes, "the [Wells Fargo] experience demonstrates a failure in risk evaluation and management, a key responsibility of senior management accountants" (p. 20). In other words, had senior management been more intimately involved with the employees required to discharge these sales goals, then senior management might have caught on to the employees' unethical behavior and stamped it out before it became a major problem. Even better, senior management might have identified that their sales goals were more problematic than beneficial and adjusted those sales goals accordingly. A decision-making process informed by input from line employees, while not foolproof, would likely have avoided the far-reaching negative effects of the 2016 scandal.

Illegal/Criminal Acts vs. Negligence, Lack of Information Sharing, Poor Decision-Making, etc.

Clearly, acts undertaken by Wells Fargo in the scandal were illegal. The consent decree entered into between Wells Fargo and the Consumer Financial Protection Bureau, In re Wells Fargo Bank, N.A. (2016), reflects the Bureau's conclusion that, in opening falsified accounts, Wells Fargo "violate[d] §§ 1031 and 1036(a)(1)(B) of the Consumer Financial Protection Act of 2010 (CFPA), 12 U.S.C. §§ 5531 and 5536(a)(1)(B)" (p. 1). Although the consent decree's terms did not require Wells Fargo to admit anything other than the facts giving rise to the Bureau's intervention, it is difficult to construe Wells Fargo's willingness to enter the consent decree as anything other than an admission of fault. After all, the order required Wells Fargo to pay the Bureau a civil monetary penalty of $100 million. The order, which runs for 26 pages, also describes in exhaustive detail all of the various falsified accounts Wells Fargo opened on behalf of unsuspecting customers. Thus, there is no real question regarding the illegality of Wells Fargo's actions.

Perhaps a more interesting question, however, is what was wrong with Wells Fargo's actions beyond their mere illegality. As noted above, there was a definite failure at communication by senior management. There was, moreover, a cultural failing. According to Woodside and Sharma (2017), Wells Fargo's senior management fostered a culture in which lying was acceptable: "For years, Wells Fargo employees secretly issued credit cards without a customer's consent—an assumed consent lie" (p. 142). Indeed, most employees would have never engaged in those unethical actions had senior management not implicitly sanctioned “widespread lying” (p. 142).

Compromised Values, the Press, and the Public

The financial services industry depends on a public perception of trustworthiness for its success. For this reason, the scandal was more damaging to Wells Fargo than it might have been to a business in another industry. Cook (2016) quoted one disillusioned Wells Fargo customer as saying, "As a bank customer … my reaction was one of horror. I never want to think about whether I have to trust this bank. I never want to go hunting for weird charges [on bank statements].”

Although banks, like any other businesses, exist to make profits, they are also expected to be responsible stewards of depositors' assets. Thus, when a bank appears to put its own self-interest above the interests of its depositors, the response is likely to be swift and devastating. Corkery (2017) reported that, a year after news of the scandal broke, "new credit card applications were down 43 percent in the fourth quarter of 2016 from a year ago, and that new checking account openings fell 40 percent.” The public's refusal to give its business to the bank was the surest indication that Wells Fargo had been compromised in the eyes of the public.

When it comes to attracting new customers from the younger, Millennial generation, Wells Fargo's scandal could not have come at a worse time. Already, millennials are suspicious of traditional banking institutions and unsure of why they should sign up for the fees and complications of brick-and-mortar banks. Kapadia (2017) writes,

> the millennial generation came of age during the 2008 financial crisis. They saw the greed, corruption and recklessness of traditional financial institutions destroy the economy, devastate hard-earned life’s savings and create an economic climate that made it difficult for young people (among others) to find a job, much less build wealth.
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> As a result, many millennials are reluctant consumers of traditional banking services. A report titled “The Millennial Disruption Index”

> found that all four of the leading banks in the U.S. are among the 10 least-loved brands by millennials: 70 percent of millennials report that they would rather visit the dentist than listen to what a bank rep has to say.

And, as far as the press is concerned, the scandal is not over even after the consent order. Journalists such as Colvin (2017) have compared it to the Volkswagen emissions scandal. Hiltzik (2016) wrote that "piling insult upon injury," Wells Fargo has exploited contractual arbitration clauses to prevent consumers from suing over the falsified accounts. Again, because banks are presumed to be repositories of the public trust, the media has seized upon the Wells Fargo scandal as an exemplar of how large institutions ensnare the public, who, in turn, feel continually victimized.

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