Wells Fargo Fraud

American financial institution Wells Fargo was beating the odds in a bad economy. During the financial crisis in 2008, the bank acquired Wachovia to become the third-largest bank by assets in the United States. A few years later, its growing revenue and soaring stock brought the company's value to nearly $300 billion. But behind this success was a company culture that drove employees to open fraudulent accounts in attempt to reach lofty sales goals. Between 2011 and 2015, company employees opened more than 1.5 million bank accounts and applied for over 565,000 credit cards in customers' names that may not have been authorized.

Many former employees reported that company sales goals were impossible to meet, and incentives for compensation and ongoing employment encouraged gaming the system. Wells Fargo pressured employees to cross-sell, offering customers with one type of product, such as checking or savings accounts, to also buy other types of products, such as credit cards and loans. One former employee described it as a "grind-house," with co-workers "cracking under pressure." Another former employee reported, "If you don't meet your solutions you're not a team player. If you're bringing down the team then you will be fired and it will be on your permanent record."

In mid-2014, Well Fargo attempted to curb fraudulent activity with an ethics workshop that warned employees not to create fake accounts in customers' names. Wells Fargo also modified its compensation structure to place less emphasis on sales goals. But in the following years these efforts were not enough. The company continued to fire employees over fraudulent accounts. Wells Fargo spokesperson Mary Eshet stated, "The steps we have been taking have been effective…[and] we are continuing to do more." Their own analysis showed a decline in fake accounts by 2015, but many were still being created.

One former employee described his brief time at Wells Fargo as "the lowest point of my life." He encouraged an elderly woman to sign up for a credit card she did not want by telling her "it was confirmation that she stopped by to update her address." This made him sick to his stomach. He reported, "But it was a tough economy, and I was worried, if I lost this job, I would be in a tough financial situation." Deceptive practices such as this were widespread across the company, and many former employees reported that their managers knew about them. Jonathan Delshad, a lawyer working on behalf of former employees, said, "The better they did at sales, the more they advanced, so it got spread across the company. An entire generation of managers thrived in the culture, got rewarded for it, and are now in positions of power." One former employee said she could not meet sales goals in

any ethical way and called the Wells Fargo's ethics hotline. She was eventually fired.

In 2016, Well Fargo was fined a combined total $185 million for fraudulent activity, and CEO John Stumpf resigned. Between 2011 and 2016, approximately 5,300 employees were fired for fraudulent sales practices. Sales quotas were eliminated effective January 1, 2017.

Concepts: Conflict of Interest and Incentive Gaming

Ethical Insights:

Wells Fargo has a fiduciary duty to treat its customers fairly. The bank offered many different services to its customers. But the bank's management set unrealistically high sales goals for its employees, encouraging many employees to game the system. If a customer bought one service, employees were urged to "cross-sell" several more. "Eight is great" was the company mantra. The only way that Wells Fargo employees could meet their unrealistic sales targets, and thereby keep their jobs, was to make up accounts that customers had not requested and often didn't even know they were being charged for. Employees fabricated millions of fraudulent accounts in order to keep their bosses happy and remain employed. It was a classic conflict of interest.

Discussion Questions:

1. In what ways does this case study demonstrate conflict of interest? Explain.
2. In what ways does this case study demonstrate incentive gaming? Explain.
3. What factors played the most important role in leading so many Wells Fargo employees to cheat the bank's customers?
4. Was the problem at Wells Fargo the corporate culture or a few thousand "bad apples?" Explain.
5. In what ways did company culture and compensation at Wells Fargo encourage incentive gaming? Explain. How did incentive gaming become entangled with conflicts of interest?
6. Although Wells Fargo attempted to curb fraudulent activity with an ethics workshop and change in compensation structure, the company continued to find fraudulent accounts being opened by employees. Why do you think this continued to occur? What do you think Wells Fargo could have done to better curb fraudulent activity?
7. Are the low-level employees more to blame, or the managers? Were both in a conflict of interest situation? Explain.

8. Many employees admitted that they knew what they were doing was wrong but continued to open fraudulent accounts. Do you think their actions were in any way ethically justifiable? Why or why not? If you were in their position, what would you have done?
9. What rationalizations did employees use to justify cheating their customers?
10. Losing your job is tough. Losing sleep at night because you knowingly ripped off a customer might be tougher. How would you resolve such a conflict of interest?
11. In response to the Wells Fargo case, U.S. Treasury Secretary Jacob Lew stated, “This ought to be a moment when people stop and remember how dangerous the system is when you don’t have the proper protections in place.” He added, “This is a wake-up call. It should remind all of us and firms that culture and compensation make a difference,” continuing, “How you reward people, how you motivate people and what values you hold people to matter.” Do you agree with Lew? Why or why not? How would you suggest companies protect against such “dangerous” systems?
12. Can it be difficult for companies to strike a balance between adequately incentivizing employees and over-incentivizing them? How does a company strike the proper balance?

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