DISCUSSION CASE: Wells Fargo: Who’s Responsible?Wells Fargo is one of the world’s largest banking and financial services companies, operating in more than thirty countries with more than one- quarter of a million employees and 70 million customers. With roots in the mid-nineteenth century, it is also one of the oldest continuing operating financial institutions in the United States.Wells Fargo has long been known for its business strategy of cross- selling, the practice of marketing additional products to existing customers. Traditionally, banks and financial services companies saw themselves as professionals who pro-vided advisory services to clients in much the same way that an attorney or an accountant provides professional services to his or her clients. On this model, success would be measured in terms of achieving the clients’ interests in manag-ing risks, return on investment, and so forth. This model, which can be referred to as the fiduciary model, aims to align the interests of the firm with the interests of the client so that when the client succeeds, the firms succeeds. But many banks and financial institutions have moved away from this fiduciary model in recent decades to adopt a more transactional, consumerist model in which clients are viewed simply as customers to whom the company sells products. Here, the firm’s success is measured in terms of how many products are sold and how much profit is earned from those sales. Of course, one trade- off of this shift is that client and business interests may not always align in that the business can

profit whether or not the customer does. Wells Fargo was among the first banks to move aggressively in this direction.Exactly how aggressive Wells Fargo had been in cross- selling became clear in September 2016 when the U.S. Consumer Financial Protection Bureau announced that Wells Fargo employees had fraudulently opened millions of unauthorized credit card and deposit accounts in the name of present customers. Wells Fargo admitted to the wrongdoing and agreed to fines of $185 million to state and federal authorities. In paying these fines, Wells Fargo admitted to selling products to cus-tomers who neither knew about nor consented to these actions. The resulting scan-dal plagues Wells Fargo to this day.At the time of the announcement, Wells Fargo admitted that between 2011 and 2016 employees had opened more than 1.5 million fraudulent accounts and more than 500,000 unauthorized credit card applications in the names of present cus-tomers. Further investigations that reviewed activities prior to 2011 discovered that more than half a million additional fraudulent online bill- paying accounts had also been opened and hundreds of thousands of fraudulent insurance policies were sold to unsuspecting customers. As of spring 2018, Wells Fargo had admitted to selling more than 3.5 million unauthorized financial products to customers.The process involved in committing this fraud was reasonably easy. Employees, mostly in the type of entry- level positions that recent college graduates might fill, had ready access to the information needed for the new accounts: names, addresses, social security numbers, and so forth. Applying for and confirming the sale of a new product for an existing customer could be done with a few clicks of a mouse. Investigations revealed that thousands of employees had taken part in the scheme. Over 5,000 employees lost their jobs when the fraud was discovered.Of course, such widespread fraud could not have gone unnoticed by the man-agers who had oversight of these employees. It soon became clear that mid- level management had actively participated in these activities, including providing instructions on how to do it and how to avoid detection by customers. Employees were advised on how to forge signatures and create fake PIN numbers. Managers instructed employees to use some of their own personal information or fake e- mail addresses on the accounts so that the defrauded customers would not receive follow- up information or the new credit and debit cards. It also appears that employees who were reluctant to participate, or who attempted to blow the whistle, got punished by not only losing their jobs but also receiving negative evaluations that effectively prevented them from finding future employment in the banking industry. Less directly, but perhaps much more effectively, management partici-pated in the practice by creating and enforcing demanding sales quotas. Employees who missed targets for cross- selling were required to work nights and weekends and were denied promotions and salary increases.Initially, senior Wells Fargo executives, including CEO and Board Chair John Stumpf, seemed to claim that the fault rested with “dishonest” individuals who had been fired as a result. In testimony to the U.S. Senate Banking Committee, Stumpf claimed that: “I do want to make it clear that there was no orchestrated effort, or scheme as some have called it, by the company. We never directed or wanted our employees, whom we refer to as team members, to provide products and services to customers they did not want or need.” Stumpf explained the widespread nature of the fraud as likely resulting from employees talking to each other.But closer analysis showed a pattern of decisions, behavior, and tone at the highest executive levels that contributed to a culture in which such widespread fraud flourished. Stumpf himself was known for his mantra, “eight is great,” suggesting a target of eight products for each customer in an industry where the average was less than half of that. During every quarterly earnings call when the fraud was prevalent, Stumpf had touted to investors the ever- increasing levels of record cross- selling. Partially as a result, the value of Stumpf’s own stock ownership increased by more than $200 million during the five years that the fraud was prevalent.There was also evidence that senior executives knew of the fraudulent sales well before the practice became public. A 2013 Los Angeles Times article, which eventually led to the government investigations that uncovered the fraud, con-tained allegations of this practice. Wells Fargo’s own training manual contained a reminder not to sell products without the explicit consent of customers—a reminder that was highlighted and emphasized in a way to suggest that the practice was known to occur. Wells Fargo executives also had internal reports showing that the steady increase in cross- selling was correlated with a steady increase in accounts that were never used by customers.Further, the entire culture of Wells Fargo seemed designed to encourage cheating and discourage honest sales practices. For example, the incentive sys-tem, ranging from sales targets for hourly workers to executive bonuses, made it clear to everyone that aggressive cross- selling was the expectation for all. The executive who had direct oversight of the sales division received over $125 million when she retired just before the scandal was revealed. (Wells Fargo eventually recovered half that amount in a clawback process.) Employees stated that reports to an internal ethics hotline were ignored. In response to claims that they failed to exercise their oversight function as required by U.S. federal law, board members later claimed they were left in the dark, learning about the scandal from the media. Like many corporations, the Wells Fargo CEO also served as the chair of the board.Various government agencies were involved in this case. City of Los Angeles and California state investigators played a major role is uncovering the fraud. The federal Consumer Financial Protection Bureau also worked on the investigations and instituted the large fine against Wells Fargo. The U.S. Senate Banking Committee held several hearings in which members very publicly criticized Wells Fargo executives and its board. In February 2018, the U.S. Federal Reserve Bank, the primary regulator of U.S. banks, imposed strong penalties on the bank and its board. In an unprecedented punishment, the Fed restricted Wells Fargo’s future growth and required the replacement of several board members for failing their oversight duty. But other government actions, including laws that prohibited fraud, protecting whistle- blowers, and laws that required ethical compliance and over-sight by the board, proved ineffective in preventing widespread fraud that went on for many years.