

The Wells Fargo Banking Scandal

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Meet The Team



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The History of Wells Fargo and Past Scandals

Wells Fargo is one of the biggest and most reputable banks in the U.S. but not exempt from scandals

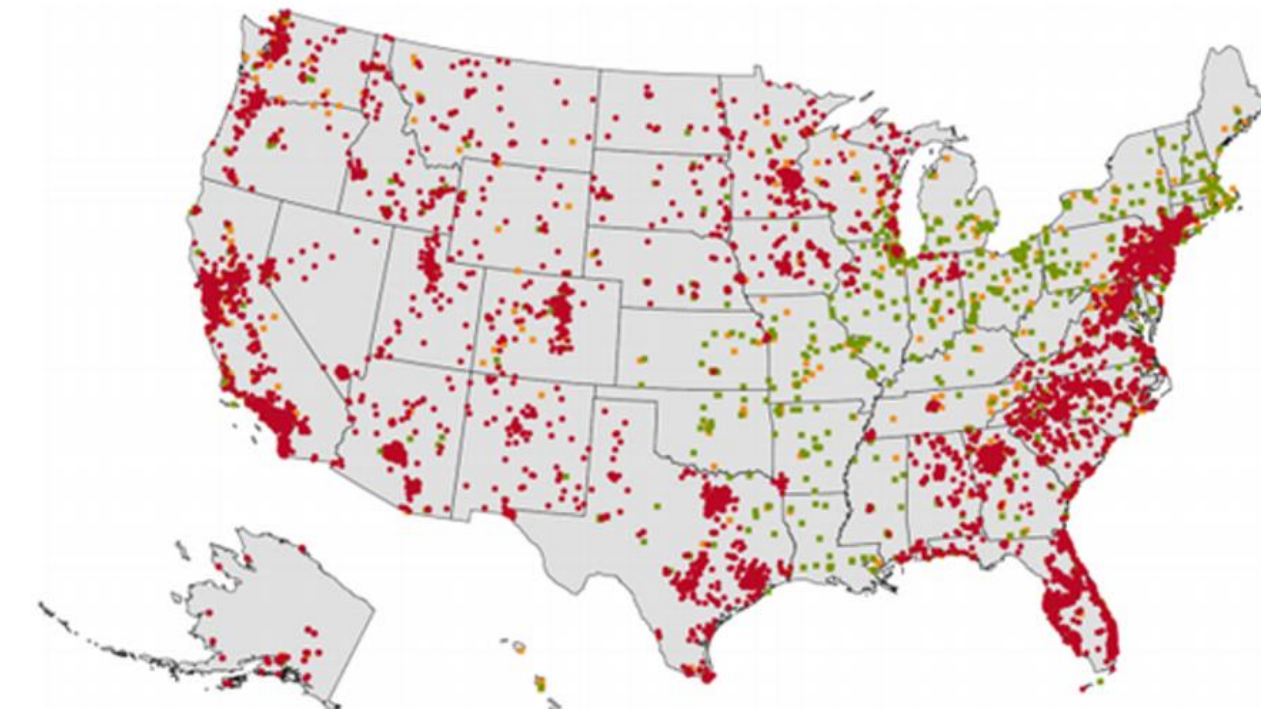
History of Wells Fargo

- **Founded** in **1852** by Henry **Wells** and William **Fargo**
- Initially offered **Financial Services** and **Delivery Express Services**
- 1998 **merger** with **Norwest Bank** and 2008 **Acquisition** of **Wachovia**
- Backed by known financial **investors** such as **Warren Buffett**

Key Indicators

- 11,000 **branches**, 12,000 **ATMs**, 70 million **customers**, and over 200,000 **employees**
- **Serving** approximately **1 of 3 households** in the U.S.
- Coined as one of the **world's most valuable banks** in 2015, with **\$22.9 billion** in **profits**

Branch Network



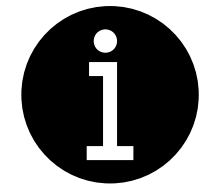
Past Scandals

- **\$175 million settlement** with the Department of Justice over claims of **discriminatory lending practices** targeting ethnic minorities in 2012
- **\$6.5 million fine** by SEC regarding sale of **risky mortgage-backed securities**
- **\$185 million settlement** with three different regulatory bodies over the **opening unauthorized account** for millions of costumers

Picture: <https://www.foxbusiness.com/markets/wells-fargos-branch-network-is-a-potent-competitive-advantage>

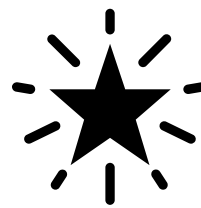
Wells Fargo's Strategy to Compete in the Community Banking Area

Its aggressive cross-selling strategy was the main driver for growth, but also led to unethical practises



Wells Fargo's community banking area

- 57% of Wells Fargo's annual revenue in 2015
- Expansive and structured in a **wide hierarchical system**
- 6,000 local bank branches in 2015 and 100,000 branch bankers at its foundation



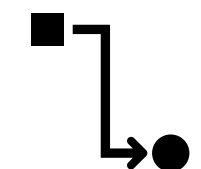
Requirements for success in cross-selling and its implications

- Substantial investments in systems and training
- Appropriate incentives and recognition for team members
- A **dedication to understanding your customers' financial goals**
- If established, it is a unique competitive advantage that's not easily replicable



Measures and Monitoring

- Incentive programs to motivate bank personnel to drive sales
- Sales metrics were routinely tracked and reported to the upper levels of the division's hierarchy
- Progress was monitored through a daily "**Motivator Report**" sent to managers



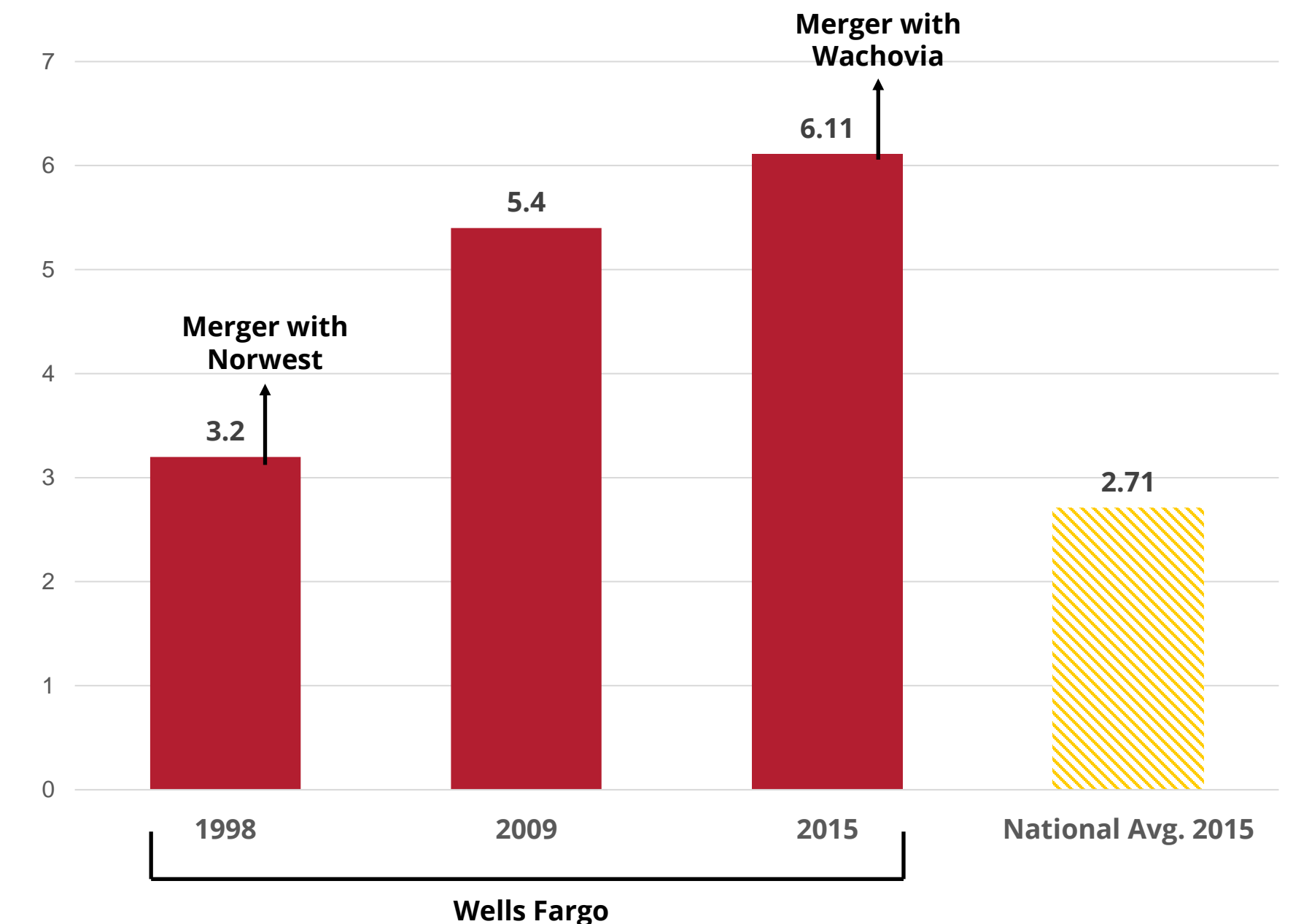
Impact

- Bankers who failed to meet **sales targets** were either coached or laid off
- Managers with strong sales results experienced fast career advancement
- The cross-selling strategy helped the bank to grow in both strong and weak economic cycles , but also led to **unethical practices**

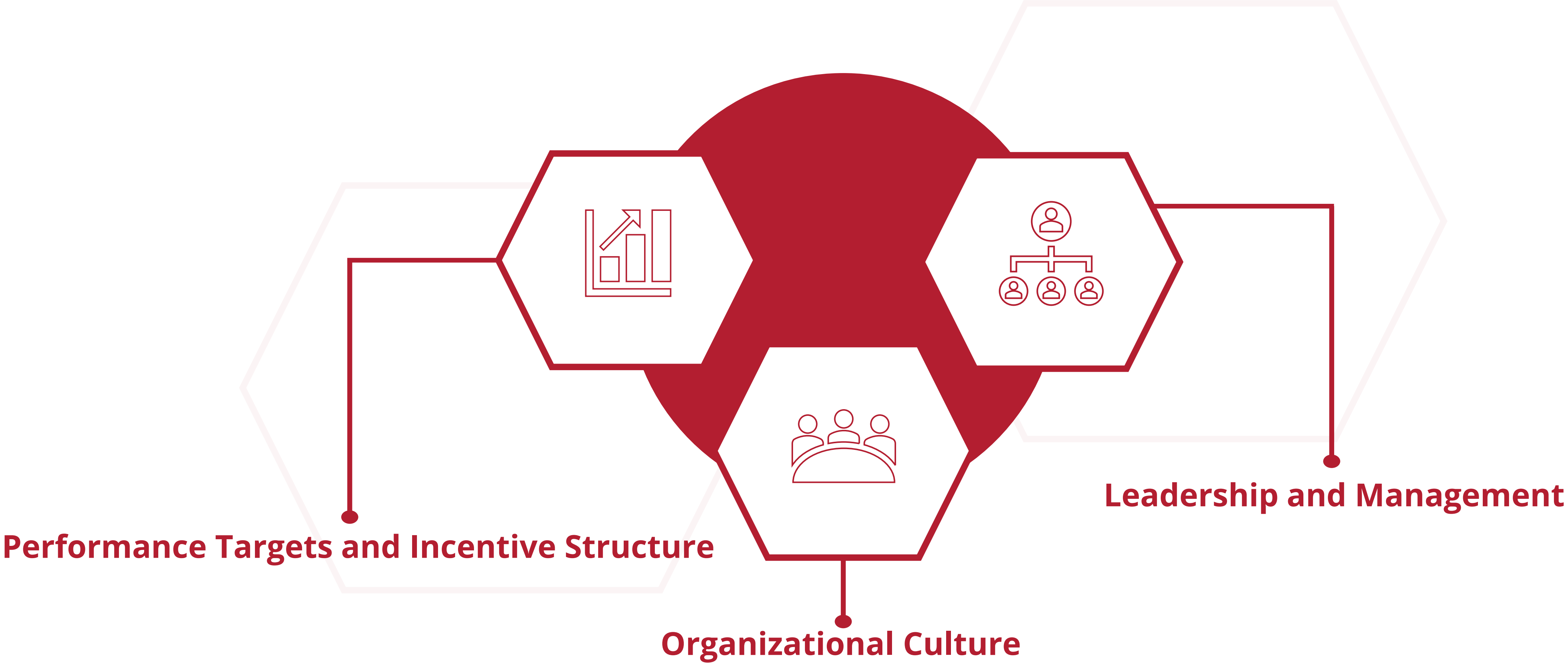
Cross-selling target

The **primary strategy** of Wells Fargo's community banking was "**cross-selling**" with a goal of averaging **8 products per customer**

Avg. number of products per retail banking customer



Key Factors Behind Questionable Sale Tactics



Performance Targets and Incentive Structure

The Effect of Performance Targets

Agressive Performance Targets

- Wells Fargo targeted unrealistic sales goals
- Employees were **monitored and pressured**
- **Locke & Latham**: Ambitious goals can boost performance, but unrealistic targets increase ethical risk

Performance Pressure

- Constant surveillance and penalties created fear
- Many felt forced to **choose between income and ethics**
- **McKinsey (2018)**: Incentives like these drive *blind ambition*

Incentive Missalignment

- Bonuses tied to sales led to **conflicts of interest**
- **Agency Theory**: Employees pursued personal gain over organizational reputation
- The boundary between ethical and unethical behavior became blurred



Questionable Sales Tactics



Example: UK Banks and the PPI-Scandal

- **Major UK banks sold (PPI)** to millions of customers
- Insurance products were often **sold without consent**
- **Sales-based incentives** encouraged unethical behavior

Consequences

- £38 billion in customer refunds
- Reputational damage

Organizational Culture

How Culture Effects Employees Behavior

Results Oriented Culture

- **Success** was measured solely by **hitting sales targets**
- **“Whatever it takes” mindset** normalized unethical behavior
- **Integrity was sidelined** in favor of performance metrics

Culture Normalized Misconduct

- **Schein’s Organizational Culture Theory** (Schein): Shared values shaped behavior around sales
- **Psychological Safety Theory** (Edmondson): Fear of speaking up discouraged ethical concerns
- Employees adapted to norms that made **misconduct part of daily operations**

The Power of Culture

- **PwC (2021): 67%** say culture matters more than strategy
- **Deloitte (2020):** Values-driven cultures are more ethical and resilient
- Wells Fargo failed to treat culture as a competitive advantage



Example: Volkswagen «Dieselgate» Scandal

- **Culture of fear** and perfectionism silenced dissent
- **Engineers manipulated emissions** to meet targets
- Reflects how **toxic cultures can legitimize misconduct**

Consequences

- €30B in legal penalties
- Criminal charges

Ethical Leadership/Management

How weak ethical leadership affects culture

Leadership failure

- **Values and ethics document ignored** – 37-page vision and values sidelined for sales
- **Retaliation culture** – employees feared termination for whistleblowing
- **Goal justifies the means** – senior management emphasised the negligence of ethics as long as performance was met.

Toxic Employee management

- **Pay structure rewarded misconduct** – although not intended, the low wages with high performance bonuses incentivised unethical behaviour
- **Management turned blind eye if numbers were met.**

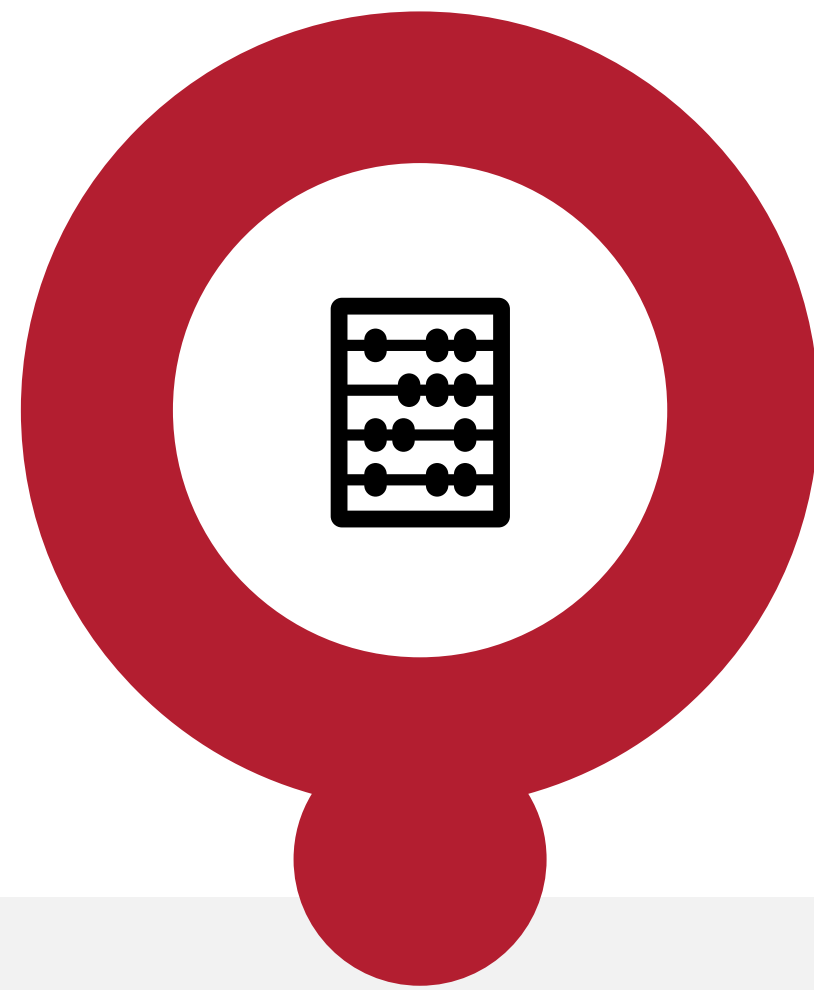
Systemic control breakdown

- **COSO framework failures** – No monitoring or ethical control environment
- **2m+ fake accounts** – despite internal warnings
- **Brown & Treviño (2006)** – no ethical leadership = silence
- **Victor & Cullen (1988)**: profit-only focus justifies misconduct

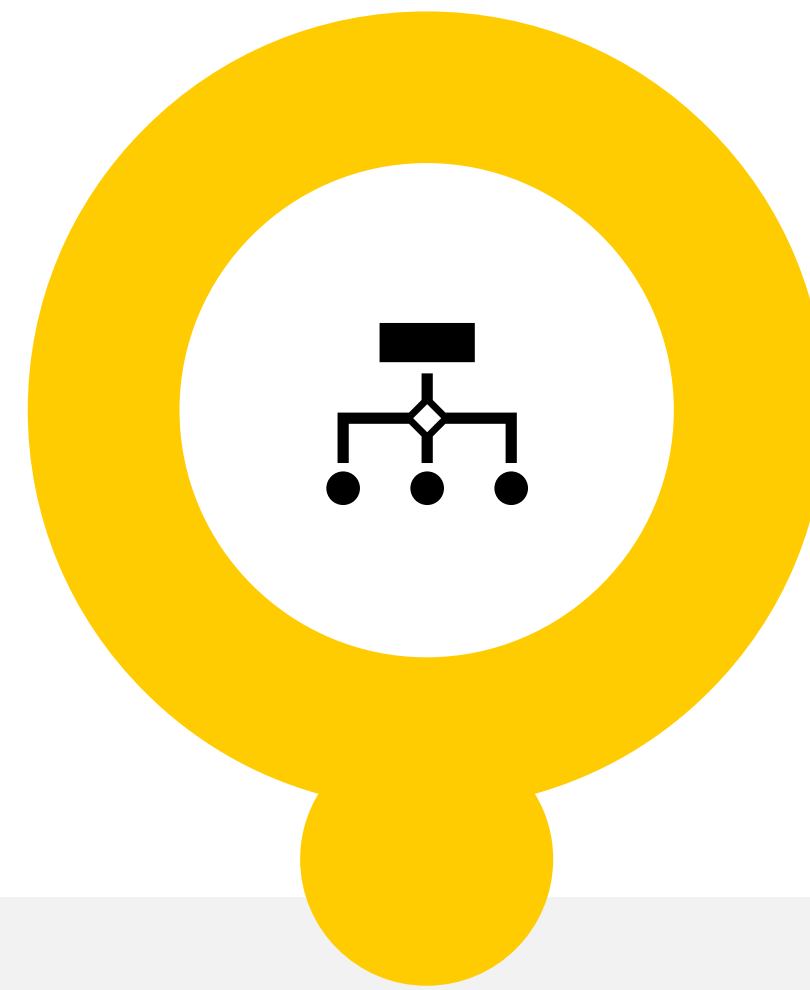


Mitigation Strategies to Prevent Future Misconduct

Focusing on qualitative risk measures in order to create a sustainable culture and long-lasting success



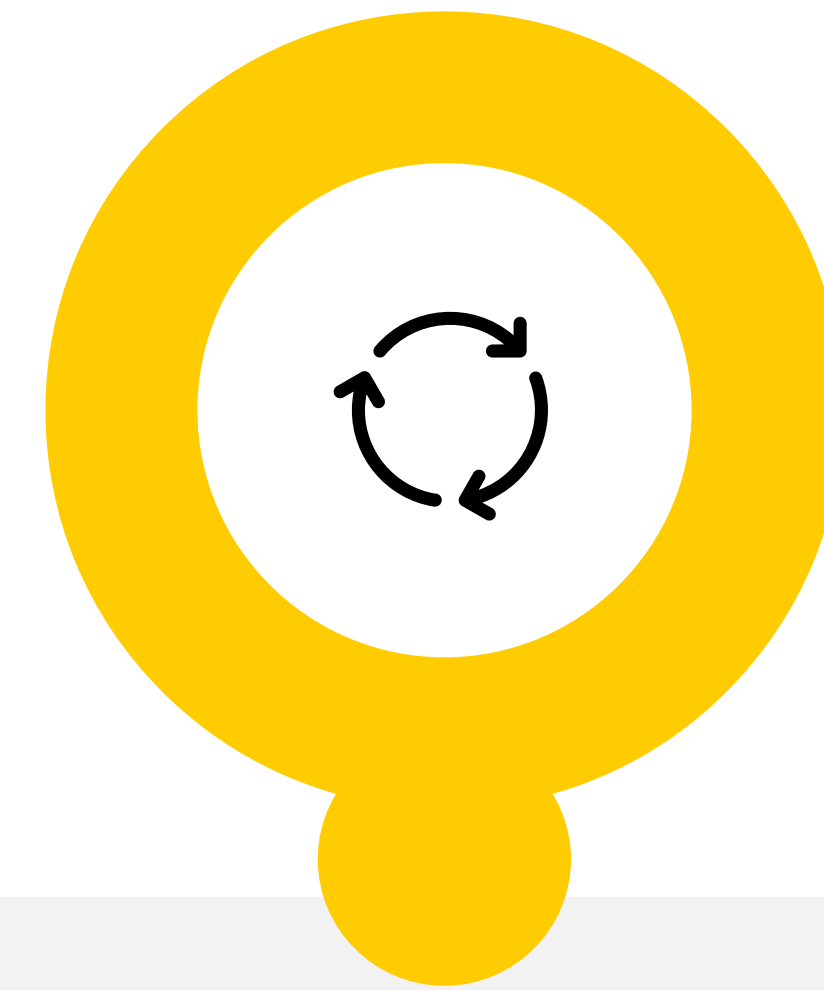
**Usage of Behavioral
and Ethical Tests in
Assessment Center**



**Increased
Accountability for
Senior Management
and Board Members**



**Anonymous
Escalation Platform:
Reporting to Act**



**Ethical Feedback
Loops:
Reporting to Learn**

Improving Assessment Tests and Increasing Management Accountability

To help improve the corporate culture and create an safe environment that fosters ethical leadership

Corporate Culture

Usage of Behavioral and Ethical Tests in Assessment Center

Psychological Safety and Ethical Leadership

Increased Accountability for Senior Management and Board Members



Goal

Alignment of workforce ethical standards with the company and overall values

Ensuring ethical leadership and preventing top-down cultural failures

- Integrate **behavioral** and **integrity assessments** to evaluate candidates' fit
- **Scenario-based** tests and **culture-focused** interviews
- Additional **reference checks** and **onboarding** should reinforce integrity


- **Performance system** that links executive compensation to ethical behavior
- **Clawback provisions** for violations and to promote long-term integrity
- An **independent oversight committee** should report directly to the board



Description

Deutsche Bank uses a **multi-stage process**, including online **situational judgment tests** to assess personality and behavior, followed by interviews that include ethics-based questions

In 2012, **HSBC** implemented accountability reforms including **bonus deferrals**, **clawbacks**, and **tying** executive **compensation** to **non-financial metrics** such as customer trust and compliance



Real-life Example

Empowering Employees and Fostering Continuous Feedback and Learning

To help employees deal with stressful incentive structures and improve the overall feedback culture

Performance Targets and Incentive Structure

Anonymous Escalation Platform: Reporting to Act

Providing employees with a secure, confidential, and non-retaliatory channel to report actual unethical misconduct.

- Providing all employees – especially junior staff – a secure channel to report unethical behavior.
- Enabling direct communication, **bypassing hierarchical barriers**.
- Rebuilding external and internal confidence, creating a cultural sign that Wells Fargo values ethical behavior and long-term trust.

Bridgewater Associates are known for their transparency, where employees are encouraged to **challenge decisions** and report concerns through **structured and safe channels**, flattening hierarchy and promoting an open dialogue.

Corporate Culture

Ethical Feedback Loops: Reporting to Learn

Building a proactive system for organizational learning, targeting from “ethical near misses”.

- Reporting “ethical near misses” that **may not qualify as misconduct but indicates potential systematic risk**.
- Transforming subtle employee insights into actionable knowledge that **helps refine ethical policies**.
- Using collective feedback to **identify operational drift before minor concerns becomes large scale ethical breaches**.


The **ASRS system** in the **Aviation industry** serves as a non-punitive system for pilot and air-traffic controllers to log “near misses”. In Banking, **a non-punitive system would help organizations identify cultural risk** and adjust practices before misconduct occurs.



Goal



Description



Real-life Example

Wells Fargo 2016 – 2024

What happened with Wells Fargo?

Change of CEO in 2019

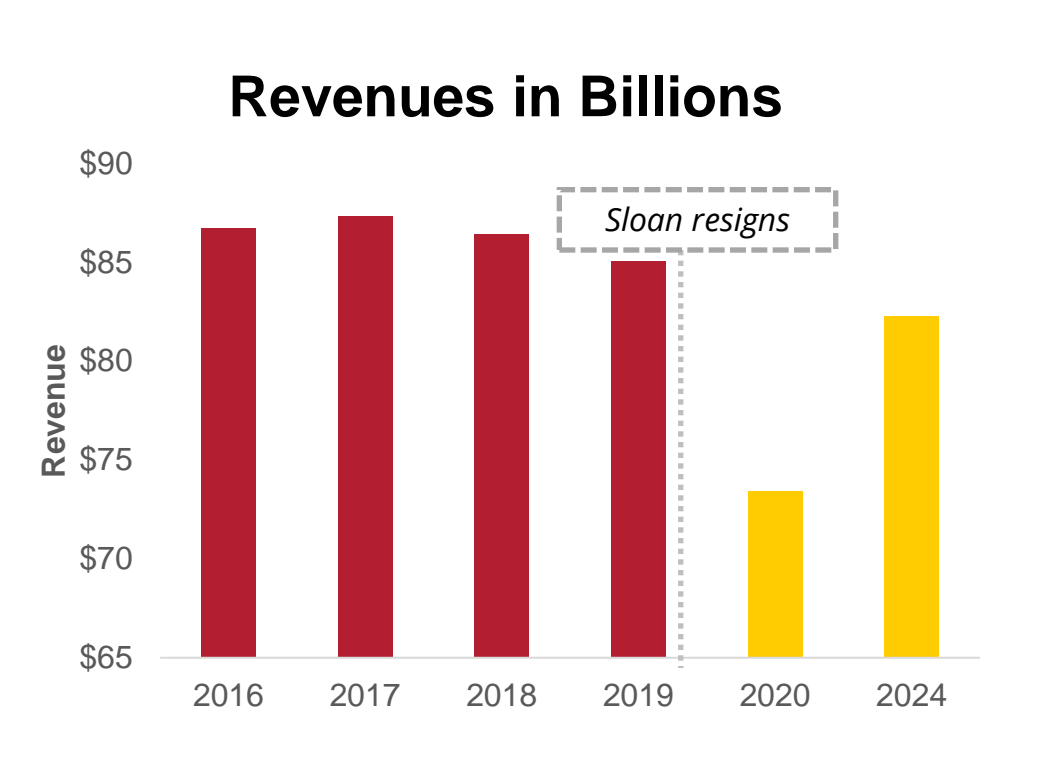


Former CEO, Tim Sloan

“I have made the decision to step aside because I believe it is best for the company.”

– Tim Sloan, 2019

Financial Performance



Revenues from 2016-2024

2016–2019: Stable revenue under Sloan

2020–2022: Covid years

2022–2024: Steady increase in revenues

Reputation

AMERICA

Wells Fargo Fined \$185 Million Over Creation Of Fake Accounts For Bonuses

INVESTING

Wall Street is livid over Wells Fargo’s latest scandal: ‘Here we go again’

PUBLISHED MON, JUL 31 2017-5:48 PM EDT | UPDATED MON, JUL 31 2017-6:57 PM EDT

MONEY > MARKETS

Wells Fargo Stock: Good Times Ahead

By Trefis Team Contributor. Building a platform to do the job of 1 mill... for Great Speculations

Jan 17, 2025 at 05:00am EST

Ranking of U.S. Banks

RANK	BANK NAME	TOTAL ASSETS
1	JPMorgan Chase	\$3.58 trillion
2	Bank of America	\$2.56 trillion
3	Citigroup	\$1.73 trillion
4	Wells Fargo	\$1.69 trillion
5	U.S. Bancorp	\$670 billion
6	Goldman Sachs	\$564.3 billion
7	PNC Financial Services	\$559.7 billion
8	Truist	\$515.2 billion
9	Capital One Financial	\$483.8 billion
10	TD Group US Holdings	\$399.8 billion
11	Bank of New York Mellon	\$348 billion
12	State Street	\$334.3 billion
13	BMO	\$264.3 billion
14	Morgan Stanley	\$224.8 billion



“Fixing culture is harder than fixing strategy - but far more important.”

PwC 2021




Final Summary

Wells Fargo's Strategy

Target





-  **Strategy** was centered around aggressive cross-selling
-  **Cross-selling target** of 8 products per customer

Impact




-  Bankers who failed to meet sales targets were laid off
-  **Fast career advancement** for sales-driven Managers
-  Helped the bank to grow, but led to **unethical practises**

Key Factors For Sales Tactics




Performance Targets and Incentive Structures

-  **Aggressive** Targets Incentivized Sales Over Ethics
-  **Goal-Setting Theory** explain misconduct risk
-  **McKinsey**: Misaligned incentives drive “blind ambition”
-  **Similar case**: UK PPI Scandal (insurance)

Organizational Culture

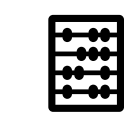
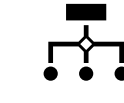


-  **Sales-first mindset** normalized unethical behaviour
-  **PwC**: Strong culture outperforms strategy
-  **Similar case**: Volkswagen “Dieselgate”

Ethical Leadership/Management

-  **Leadership failure** vision and values neglected
-  **Toxic Employee management** - retaliation/termination
-  **Systemic Control Breakdown** failed monitoring control

Leading For A Better Future

Mitigation Strategies

-  Behavioral and Ethical Tests in **Assessment Center**
-  **Increased Accountability** for Senior Management
-  **Anonymous escalation platform**: reporting to act
-  **Ethical feedback loop**: reporting to learn

Q&A

