Case Study: Wells Fargo

Wells Fargo for a long time was looked upon as one of the most trustworthy and ethical banks in the nation. The company's vision is to "satisfy our customers' financial needs and help them succeed financially." And the company's published values are, "What's right for customers; people as a competitive advantage; ethics; diversity and inclusion; and leadership. https://stories.wf.com/ceo-tim-sloan-introduces-vision-values-goals-wells-fargo/

However, in 2013, rumors circulated that Wells Fargo employees in Southern California were engaging in aggressive tactics to meet their daily cross-selling targets. According to the Los Angeles Times, approximately 30 employees were fired for opening new accounts and issuing debit or credit cards without customer knowledge, in some cases by forging signatures. "We found a breakdown in a small number of our team members," a Wells Fargo spokesman stated. "Our team members do have goals. And sometimes they can be blinded by a goal."

The Wells Fargo compensation system emphasized cross-selling as a performance metric for awarding incentive pay to employees. The company also published scorecards that ranked individual branches on sales metrics, including cross-selling. 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 up to 15 to 20 percent of their salary and tellers receiving up to 3 percent.

Wells Fargo had multiple controls in place to prevent abuse. Employee handbooks explicitly stated that "splitting a customer deposit and opening multiple accounts for the purpose of increasing potential incentive compensation is considered a sales integrity violation." The company maintained an ethics program to instruct bank employees on spotting and addressing conflicts of interest. It also maintained a whistleblower hotline to notify senior management of violations. Furthermore, the senior management incentive system had protections consistent with best practices for minimizing risk, including bonuses tied to instilling the company's vision and values in its culture, bonuses tied to risk management, prohibitions against hedging or pledging equity awards, hold-past retirement provisions for equity awards, and numerous triggers for clawbacks and recoupment of bonuses in the cases where they were inappropriately earned.

According to DOJ officials, Wells Fargo management finally admitted that the company's performance measures pressured employees to meet "unrealistic sales goals that led to thousands of employees opening millions of accounts for customers under false pretenses or without customer consent often by misusing customers' identities."

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In September 2016, Wells Fargo announced that it would pay $185 million to settle a lawsuit filed by regulators and the city and county of Los Angeles, admitting that employees had opened as many as 2 million accounts without customer authorization over a five-year period.

Questions for case study to use when discussing with classmates:

1. Do you think performance measures contributed to the Wells Fargo debacle?

2. How would you design performance measures for branch managers, employees, and mid-management that would align with the company's mission, vision, values, and goals and objectives (such as maximizing return on investment)?

3. What would those performance measures look like?

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