

The wells fargo fake account scandal



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A critical analysis of the scandal and the three core organizational problems that most directly contributed to the illegal conduct and behavior of a significant number of Wells Fargo employees.

INTRODUCTION

Wells Fargo & Company is a diversified, community-based financial services company, founded in 1852 and head quartered in San Francisco. Wells Fargo provide banking, investment and mortgage products and services, as well as consumer and commercial finance. Well Fargo was known for its sound management and was ranked 7th in Barron ' list as ' most respected companies' in 2015. But soon in 2016, Wells Fargo admitted that employees had opened as many as 2 million account without customer authorization over a five-year period and also announced that it would pay \$185 million to settle a law suit filed by regulators and the city and county of Los Angeles. Wells Fargo employees were engaging in illegitimate sales practice and engaged in unfair practices, including opening deposit accounts, applying for credit accounts, forging the signatures and all without customer authorization.

A bank with such a well-established reputation have fallen into the trap of scandal. The process that led to the scandal were at odds with Wells Fargo's existing values and ethical statements. (Verschoor & Montvale Vol. 98, 2016) observed, that what is being practice in market is totally different and conflicts with what is expressed publicly as vision and values of the Wells Fargo. The unethical behavior also differs completely from Wells Fargo's code of Ethics and Business conduct.

What went wrong? With such a high values, it was unexpected from the company to go into such a big unethical scandal. This essay will briefly discuss about What, How and Where Wells Fargo went wrong and the critical analysis of the scandal.

CROSS-SELLING REVELATION & PERFORMANCE AND STRATEGY MANAGEMENT SYSTEM

With the rise of 20th century, financial market became huge and more competitive than before. Numbers of financial companies came into market, with different products, different schemes and other fascinating methods to acquire clients. Because of this competitive atmosphere, pressure directly landed on the sales team, to acquire more and more client and to sell all the possible product to the client, because more product generates more information about the client, which ultimately leads to higher profitability. Cross selling refers to signing existing customers up for additional products, such as a customer with savings account could be convinced to open a checking account, to get credit card, take out a mortgage with Wells Fargo. Employees found the sales targets too demanding to meet as they were trained to achieve the targets from the starting and to be in competition as it'll result in financial rewards and promotion to them, otherwise failing to achieve the targets would lead to penalization, transfer and even termination. (Davidson, 2016) said that the Wells Fargo Scandal arose as a result of the intense pressure upon employees to meet sales target for cross-selling. As a result employees began opening fake accounts in the name of existing customers. Employees were rewarded for their ability to reach sales targets, without considering how those goals were achieved. The bank could

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have also chosen different strategy to reward their employees' performance on basis on customer satisfaction and profitability, instead of only bank's profitability. Competition is an important part of an organizational and employee dynamics, it's motivates employees for increasing efforts for better results, which creates recognition, promotions and bonuses. It's very important for the organization to closely monitor each and every action in the implementation of the goal, if they expect their employees to behave in a certain ethical way.

A LEADERSHIP IN DENIAL

(Verschoor & Montvale Vol. 98, 2016) stated that, ' the well Fargo experience states demonstrate a failure in risk evaluation and management, a key responsibility of senior management accountants'. If senior management were effectively more involved in the process, rather than only concentrating on sales number, then they might have caught on to employees' unethical behavior and stamped it out before it became a major problem. Not even this, if they could have identified that their sales goal are creating more problems, rather than generating revenue, it could have been adjusted accordingly.

An Ethical Leadership Model (ELM), state that followers vicariously emulate behavior that is expected, rewarded, and punished from role models. The ELM establishes that the emulated behavior is closely related to various factors, including (a) the leader's honesty, (b) whether or not the leader treats his/her followers with dignity and respect, (c) interactional fairness, (d) socialized charismatic leadership and (e) abusive supervision (Filabi, 2018).

(Bandura, 1989) Albert Bandura in her social cognitive theory states that people are neither driven by inner forces nor automatically shaped and controlled by the environment but they function as contributors to their own motivation, behavior, and development within a network of reciprocally interacting influences.

At Wells Fargo, lower level employees were treated in the same way the middle managers were being treated by their senior leaders. There was only pressure of achieving the sales number at every level of the organization. Branch managers were assigned quotas for the number and types of products sold, if it did not hit its target, the shortfall was added to the next day's goals. (Tayan, 2016) states " Although the company maintain independent risk and oversight mechanisms, all senior leaders are responsible for ensuring that proper practices were embedded in their divisions" . Woodside and Sharma (2017) (Arch G. Woodside, 2016) stated that " for years, wells Fargo employees secretly issued credit cards without a customer's consent - an assumed consent lie". That clearly signifies that the most of the employees would have never engaged in unethical actions, if senior management had not implicitly sanctioned in this lying structure. Shelley Freeman was the Lead Regional President for Florida from 2009-2013. She went a step further to add pressure, routinely exhorting her staff to do better by calling out her region's performance relative to the other regions, and encouraging them to do what it takes to be ranked first among the Wells Fargo regions (Fan Yang Wallentin, 2007). Senior managers could have balance between the meeting sales goals and doing quality work with maintain the importance of ethical standards and values of the company.

DECENTRALIZATION IN SELECTION SYSTEM AND AUDIT SYSTEM

The first step in an organization is with the first interactions with the potential hires. When an organization hires new employees, ideally it should clearly put their organizational values and code of conduct at the first sight. Values and visions statement should place clearly in front of the new employees and strictly state that they won't compromise with the breach of conduct. But in Wells Fargo, potential recruiter were told that high competition is the norm for its industry, main role is to overcome customer objections. There was no clear coordination in hiring new employee in Wells Fargo and it is decentralized in many ways. New hires were trained that winning over competitors is their main role, at any cost. This shows that customer's best interest was never in their mind, rather than competing, sourcing and acquiring client at any costs. The decentralization of the HR business unit (which take cares of employee termination, hiring, training, coaching, disciple, compensation, morale, work environment, litigations and claims) lead to the absence of visibility of the sales practice problems, which enabled employees in following values and practices and therefore tolerating rule-breaking. Also the pressure to meet the sales goal subsumed the bank's ethical culture, which lead to decentralized system of management (Tayan, 2016).

Wells Fargo internal audit and risk management functions for community banking division reported directly to the President of the community bank and indirectly to their own respective units. This gives stronger control to the Community bank of the raw data and to remove information from the reports that eventually was seen by the board, which lead to the decentralization of

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the information and audit system. In the investigation report of Wells Fargo 2017, it was found that in 2013 the Community Banking Risk Officer was able to convince Chief Risk Officer Michael Loughlin to exclude information about sales practices from a board report (Company, 2017).

CONCLUSION

The financial services entirely depend on the trustworthiness for its success. Unlike any other industry, it's very important for the banking industry to hold on to their clients and give them the utmost priority for their needs and satisfaction. Maintaining reputation, building relationship and trust is the main strategy for increasing the profit and acquiring customers. As like any other business, banks also exist to make profits, but they more expected to be responsible towards depositor's assets. When Wells Fargo put its own interest above the interest of the depositors, result came out was devastating. There were number of causes for the fraudulent behavior in Wells Fargo, like poor leadership, poor control, inadequate auditing, incentive structure, HR practices and self-human behavior. Steinhage, Cable and Wardley (2017) (Wardley, 2017) find that competition that elicits fear and anxiety leads to unethical behavior while competition that triggers excitement, facilitates creativity. In Well Fargo's case, employee was leaving in the environment of fear, which explains their unethical behavior. Fear of losing the job, fear of getting shamed in front of other colleagues, fear of not speaking up lead to the change in the ethical behavior of the employee in their informal system. It's important to understand for an organization to make employee, at every level, to make decisions that are going to give correct result.

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