Money Mayhem: The Wells Fargo Cross Selling Con Scheme – A Case Study

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Abstract — This case study looks into compiling events and facts about the Wells Fargo fiasco focusing on the company's internal processes that may have resulted in employees committing fraud. Mainly, this case study attempts to explain the main reason behind the misbehavior that occurred in the company in an attempt to create frameworks to prevent misconduct from happening again.

Keywords — Corporate Leadership, Fraud, Transparency, Corporate Responsibility

I. Introduction

Background of the Study

The Sequence of events

In December 2013, an incriminating story that appeared in the newspaper of Los Angeles Times surprised its readers. It contained the cross-selling scheme deemed to be the biggest fiasco in the history of the banking industry. Wells Fargo's management looked at itself as stores selling products, instead of banks providing services (Colvin, 2017). Apparently, Wells Fargo opened numerous accounts to include savings, credit cards, insurance, and mortgages with the same client without their knowledge. The immense pressure the managers impose on their sales employees pressed this. If targets were not achieved, employees will have to commit uncompensated overtime and even spend their weekends at work. Not only had that but employees also often reminded of being terminated from work. The management wanted to open at least four products to customers but prefers eight, in line with the CEO's notion of the number 8, which sounds great. From falsification to forgery, employees even resorted to begging their relatives to open accounts.

Some cases narrate that even managers themselves are victims. Some of them filed for early retirement and even worst when some opted to resign for refusal of adhering to the unethically cultivated sales practices.

Following more cross-selling issues and termination of employees, the company started its investigations. This event led to even more terminations as the company seems to be downplaying the amount of destruction the company is going into.

Wells Fargo only initiated serious investigations in 2015, when a lawsuit was filed against the company. It was found that many customers' complaints were already piling up due to the sales scheme. The company's reputation was already at stake. But then again, the top management was not able to realize the intensity of the problem their sales scheme has started.

Literature Review

The Business Environment

Wells Fargo is one of the biggest banks in the world. Serving the entirety of the United States, Wells Fargo has been committed to serving clients and communities for more than 161 years (Malick, 2013). It has built its name by responsible banking since the 1850s. Riding along with the hype of the California Gold Rush, the bank took advantage of the opportunity to cater to the market in need. Before, gold and paper bank drafts are the only modes to transact with banks. Wells Fargo struggled throughout the years and finally took flight, which started in the 1960s where it grew assets promptly and was known to be the bank giant in the United States.

The Cross-selling Scandal and Audit Failure

It was publicized that employees of Wells Fargo synchronously open multiple bank products without client authorization. The scheme runs where accounts will be created then closed days later. There are cases where accounts would stay open for as long as months, which would charge penalties to their clients. This scheme opposed system checks the bank employs; customers are to be automatically notified about account openings – employees would sneakily change customer personal details including contact information and so, clients would never receive any notification about bank products being availed involuntarily. Money should be deposited In order to create an account – employees would move a portion of customer deposits to the newly created account temporarily, then move it back when the newly created account is closed. Auditors are employed to review accounts in a timely manner however, their access to information is limited due to laws administered by regulatory offices. Malicious sales methods lack key controls over financial reporting (Mckendry, 2017).

The Gravity of Ambitious Sales Performance

Among many other significant workforces, Wells Fargo's lower-level employees are those who faced an excessive amount of pressure - adhering to sales targets. The company's sales model tells that as customers increase availing products, the money of the bank also increases, and the less possibility for the customer to switch banks (Colvin, 2017). The company indirectly forces employees to work extensively by keeping up to quotas - opening a distinct number of accounts or selling products every single day. This requirement does not aim for incentives, rather a risk of job security. There was a cycle of regular conferences to revisit branch accomplishments. These checks are supposed to be simple, but it only added more pressure on foot employees because if the branch does not report high sales, they will be branded as unproductive and will face the risk of being terminated.

Leadership

Wells Fargo's ethical standards focused on integrity. However, the sales vision that they employ looked at and treated customers as sources of income. There was a conflict applying these arrangements. Leadership states that they value high ethical principles. On the other hand, the plan and process they implement depend heavily on sales. There was a misalignment.

There is an imbalanced Involvement to carry the weight and burden of the sales targets across the whole hierarchy of Wells Fargo. Executives formulate ambitious number focused sales target, these targets slip through the plates of middle management, and then finally cascaded towards lower-level workers.

Going back to the timeline, Wells Fargo first knew about the cross-selling cases happening within the year 2011 – to only be given low importance and attention. Failing to solve it with haste, the board of directors seems to not see the weight and urgency of the problem (Ochs, 2016). It was acted upon poorly. Then media reports about the issue began in 2013-2014. This was the only time when leadership reacted a bit more aggressive about the issue and finally employed investigators to get a closer look at the intensity of the problem in 2015.

They knew there was a problem, there was no longer integrity in doing business, and their business ethics came to a compromise. Downplaying the situation prolongs the problem – which proves there was a clear occurrence of denial from its leadership.

One key official of the company named Carrie Tolstedt - head of the Wells Fargo Community Bank back then was branded as an obsessive, closed-minded leader. A leader that would not listen to feedback and collaboration makes employees unspeaking. They would no longer raise their distress – this would lead to resorting to unethical actions.

Fraud

Today's society in challenging times as fraud reaches a top of the obstacles in developing economies (Azim & Azam, 2016). With the development of business and world economies, the anticipation of fraud raises a different level of concern (Gates et al., 1993). The meaning of fraud varies from one organization to another, depending on how they consider such an act ethically or not, as argued by Anand et al. (2015). There are fraud acts, which are so small or simple, that there is a minimal chance for it to be caught, that is why some workers take advantage of the employer's confidence and abuse their designations (Ding & Wu, 2014). Someone who commits fraud has a tendency to encourage the workplace (Andon et al., 2015). Fraud, contrary to a mistake is something meant to harm an employer (Hamilton, 2016).

One of the goals of this study is to advocate transparency and honesty to prevent fraud. As strengthened by Petraşcu and Tieanu (2014), it is important for the society to advocate social change through taking into account the significant effects of fraud.

In dealing with fraudulent acts, managers should take into account their personal logic, emotions, and trust towards their employees, and finally, the survival of their business (Hamilton, 2016).

Conflict of interest

At times, judgments are not easy to believe. Determining trustworthiness when someone speaks of information about something, which heavily relies on the person's point of view, is puzzling (Barone & Coscia, 2018). Especially, when there is an existing case about what they call a conflict of interest. When the person in the position is to dispose of a decision or judgment – but is under a certain influence makes conflict of interest. There are factors that could influence the objectivity of decision making - personal relationships, outlook, principles, and even academic inclination. Instead of making a straight, unbiased judgment, decision-makers are beholden by circumstances that the influencer carries (Ataie-Ashtiani, 2016). Steinbrook et al. (2015) dispute that financial connections also affect judgment and put readers in a difficult situation of telling if the quality of judgment was pretentious or not.

Rebranding

In this article, we define rebranding as a procedure for altering the outlook of a firm or merchandise. The aim of rebranding is to make the new outlook more appealing to consumers. This strategy generally includes altering the logo, label, symbolism, or mixture of any of them. Businesses do rebranding to expand awareness that a company changed its product or whole identity (What is rebranding?, 2018). The undertaking of rebranding came from the ignition of an organization to adjust itself to the complexity of the new environment (Stuart, 2016). We may also conclude that rebranding means that a company changed its values in accordance with its new identity. Behind these steps are in reaction to mergers and acquisitions; reformed legal or economics standing; changes made to consumers by competitors; globalization; and as simple as a response to an old label (Stuart and Muzellec 2004; Muzellec and Lambkin 2006).

II. Methodology

This research employs an integrative review to explore many views and ideas on case studies related to the issue. Snyder (2019) claims that the technique employs a systematic review procedure. A systematic review is a research process that identifies, assesses, and synthesizes all available information on a given research issue or topic. A rigorous and transparent search for relevant research, a detailed evaluation of the quality of the studies, and a synthesis of the findings to offer a full overview of the evidence are all part of the systematic review process.

This work, in particular, adapts the integrated literature review technique. An integrated literature review, according to Schick-Makaroff et al. (2016), is a research process that synthesizes a variety of sources to offer a thorough overview of a certain issue. It is a sort of literature review in which both qualitative and quantitative research projects, as well as theoretical and empirical literature, are reviewed and analyzed. An integrated literature review seeks to discover common themes, concepts, and patterns throughout the literature in order to generate a new knowledge of the subject.

III. Results and Discussion

Processes and Strategies

Transparency

Leaders should practice and create an organization built on honesty and openness. Organizations that employ this set up produces an atmosphere of trust where there would only be a narrow (if none) opportunity to commit unethical deeds, and if they do so, the rate of being identified is high. The recent scandal proved the need for transparency in doing business. Leaders should give more powers to auditors instead of restricting them access to whatever they needed to check. This way, there will be an observance of a controlled free flow of information and a smaller window (if not totally eliminate) to commit unethical behavior (Abbas, 2019). In a world where only a mouse click can expose almost anything including things that can shatter a company's reputation, reinforced business transparency could really be a great help. Wells Fargo leadership should take note that in formulating strategic goals and making decisions, facing changes in the organization especially involving employees, the leadership should be transparent about communicating the cause, effect, and the ways on how to get through it.

Employment of Third-Party auditor

Given the fact that the company employs its own boards and auditors concludes a scenario of conflict of interest. Perhaps the company could bring a change to their business model. When a company pays an auditor organically, personal interest like career security takes place. A servant would not go against his master. Perhaps a suggestion for employing an outside auditor is viable. First, the company should be completely transparent. Auditors working outside the organization focus on pure auditing. Not a threat of termination due to interesting findings. Next, the employment of a rotation type of audit among auditing firms. The incoming auditors should also audit those auditors that go. This would create a different level of professionalism and caution.

Government Response

Prosecution and accountability

The US government should call for a criminal investigation into key officials or top management of Wells Fargo over the cross-selling fraud. Wells Fargo has committed a large scale and long-term fraud. It has admitted to falsification, unfair collection of fees, and unauthorized use of client’s information. That is a crime. Beyond this, it was revealed that the senior executives knew about the scheme long ago but they concealed it. The government should not stop until someone is held accountable.

Corporate Response

Replacement of key personalities

Given that, the Wells Fargo fiasco is one of the gravest scandals ever since banking has begun. It has destroyed not only its customer's trust and confidence but also its very own legacy and reputation. Although the US Government has taken steps already to hold the company accountable, a major reform should still be done for the bank to further survive.

The bank should replace their blameworthy top management members. In addition, an existing senior bank official during the fraud should not take over the company. It was earlier discussed that the CEO stepped down from the post - and that is a great start. However, if the company is sincere about taking action, it should look for officials that are more accountable and have them pay the price.

There should also be a replacement for the board members. This refers to the ones that are there during the times of the fraud. In business, the board knows all the data of the company. They receive first-hand information. They are the ones who will know anything about what is going on with the company, perhaps they knew about the scheme all along, but they happen to be concealing it.

Rebranding

Due to its frequent scandals, the company should employ a total rebranding strategy – including changing its name. it would be understandable that the majority of the board or senior executives would oppose the idea given the well-decorated history of the bank, but I believe, this is where the name "Wells Fargo" ends. A rebuilt and rebranded bank with a new set of executives and board members should do the work. This is necessary so that clients, workers, and the whole world see it as a new bank. It would be inefficient to run campaigns promoting the changes in the company saying that they have changed for the better. A thick stain is in Wells Fargo's name; perhaps rebranding itself into a new bank would be a wise decision.

Recommended Values

Given all the above recommendations is a window to obtain the following values:

Competence – in sourcing for possible replacements for executive and board member positions, the researcher prescribes that the candidates possess the knowledge and skills to do the job. Candidates should be highly abled and equipped with expertise that they could use to respond positively to the development of the company.

Compassion – One of Wells Fargo's error in running the business was their sales model. They cross-sell products that are not essential to the clients. As a recommendation to the next in charge, the employment of compassion could be a more humane model. Through this, the company could learn to focus on the products that the customer needed and do sales more responsibly and ethically.

Unity – I have suggested a total rebranding. If the company would consider this, it would be a chance for them to highlight total unity in promoting a new image to the public and potential clients.

Spirituality – Perhaps lack of faith contributed to the unethical work of the former employees. I suggest that as the management goes through the company overhaul, the requirement of its employees to enrich their faith by attending to their religious needs. Perhaps the management could reduce workloads during weekends so that the employees could go and attend masses and gatherings that could help them sculpt their faith, which could greatly help in developing their character and later on, avoid fraudulent acts in the future.

Accountability – Even until his last days in the office, Wells Fargo former CEO Jhon Stumpf left without any apology to anyone. Top leaders blamed and terminated low-level employees who take part in the fraud. The bank's leadership was insensitive and immoral. One value that the top executives and board members lacked was accountability. No one wanted to take responsibility. If it is still not late, perhaps the next management could make use of any means to employ accountability to every member of the organization. Accountability promotes good ethics, and that is a way to start rebuilding the company.

Recommendation For Future Research

Performance Management System

Future research should also, examine the possibility of whether or not the bank's performance management system contributed to ethical offenses committed by employees. By doing so, a study focusing on the company's retail scorecards, its contents and ways of rewarding such are one way to start. Future researchers could also look into the competitive atmosphere concerning the ranks and designations of those who committed fraud. An inventory of the size of the community where the branches are located, and if there are their rankings among performers and no-performers.

Given this school of thought, future research could also look for a basis of goal setting in the performance management system has disadvantages, and how it could contribute to the fraudulent activities.

Selection model

Mostly, one of the metrics of the human resources board in offering jobs to recruits is their values. Companies usually require candidates to undergo pre-employment tests, which aim to reveal particular traits and find an indication of whether or not the employee will ethically excel at the workplace given the job they applied for. It appears that Wells Fargo lacked in monitoring the implementation of this part of the hiring model.

As discussed by Premachandra and Filabi (2018), Wells Fargo focused on the individual sales strategy of their potential hires. During the interview, HR asks recruits to respond to "how they would deal and win a conversation over a customer in various sales scenarios". These recruitment models stress the emphasis on competition instead of ethics in doing business.

IV. Conclusion

This case highlights the importance of retaining ethical integrity from top to bottom of an organization. Businesses should see to it that however big or small they might be, business ethics should be at the top instead of making money, otherwise, scandals like these would occur. For Leadership, ownership, and responsibility is also important. One reason that angered the senate committee handling the case was the leadership's lack of accountability. And so, it caused them more penalties. It is necessary for any organization to be transparent and completely honest otherwise the company could go anywhere near more complicated situations.

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