CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES

WELLS FARGO – THE BANK YOU TRUSTED IS BUSTED

By:

Stefanie Dennig

Jana Matulovic

Meri Nordström

Jaritza Ortega

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Student Case Papers

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

Editor
Mats Urde
Associate Professor
mats.urde@fek.lu.se

Head of master's course Corporate Brand Management (BUSN35), part of the master's program International Marketing and Brand Management.
Lund School of Economics and Management

Wells Fargo – The Bank You Trusted is Busted

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STEFANIE DENNIG

JANA MATULOVIC

MERI NORDSTRÖM

JARITZA ORTEGA

The Bank You Trusted is Busted

The scandal of Wells Fargo is one of the most unique cases within the modern banking history. The case brings light to the importance of maintaining a positive corporate reputation in the eyes of stakeholders, particularly customers. It also underlines how essential of a role trust, internal transparency and open communication plays within an organization. Thus, this case gives rise to the following question: How can a bank that handles something that is so personal and valuable to customers, risk harming their prestigious reputation by acting unethically?

Background and History of Wells Fargo

Wells Fargo was founded in 1852 by Henry Wells and William Fargo. The company, that was called Fargo & Co. at that time, offered both banking and express services for its customers. Due to the gold rush, the company started its operations in the Western part of the United States where the gold rush port of San Francisco was located. Infrastructural development, such as the new transcontinental railroad in 1869, allowed Wells Fargo to extend its services across the continent. In the beginning of the 20th century, the bank's services were provided already in 6,000 locations. The company overcame financial hardships of the Great Depression as well as the second World War and commenced to flourish due to post-war prosperity.

Technological development and changed customer needs provided Wells Fargo with new business opportunities in the latter half of the 20th century. Such innovations as express lines, credit cards and online banking were introduced which helped Wells Fargo to expand its operations. Today the company's headquarters are still in San Francisco, but it has offices in altogether 42 countries. Wells Fargo employs approximately 270,000 employees and the bank has about 70 million customers. Nowadays Wells Fargo's main services include banking, insurance, mortgage, investments as well as financial advising for consumers and businesses.

The vision of Wells Fargo is to satisfy the financial needs of the company's customers and help them to succeed financially.

Reputation and Performance

In the past, Wells Fargo had an excellent reputation and was actually considered to be the most valuable bank on earth. This was made evident through the fact that they were placed number one regarding market value out of all banks in the United States of America. In addition to this, in 2015 the bank was placed number seven out of 100 in terms of the most respected businesses on 'Barron's' list.

Also, despite of the financial crisis of 2008 - 2009, Wells Fargo, with the help of their CEO John Stumpf, was stable enough to acquire Wachovia. This bank was considered one of the biggest financial services businesses in the United States. Having said that, in 2015, John Stumpf was also awarded the title of 'CEO of the Year' by Morningstar. This was justified, as mentioned above, due to him helping the company through rough patches in the banking industry. Stumpf also expressed that he did not like actions where profits were considered more important than customers.

The reason for Wells Fargo's initial success had to do with the fact that they put emphasis on their community banking. This community banking supplied a variety of deeds that included credit cards, loans, savings and checking accounts to private persons and small-scale companies. In addition, when the company started their strategy of 'cross-selling' – which mainly deals with selling supplementary goods to current customers – their financial performance increased immensely.

The bank has approximately $1.9 trillion U.S. dollars in its assets and the company's market value in stock is $272 billion dollars. In addition to this, the bank had earned $22.9 billion dollars in net income in 2015, as well as a net income of $23.1 billion dollars in 2014 and $21.9 billion dollars in 2013. This implies that Wells Fargo had quite a stable earnings performance over the course of three years.

The Crisis

On 22 September 2016, the banking giant Wells Fargo was caught in the crossfire of a banking scandal for betraying their customers' trust. The bank was accused of fraudulent sales practices and aggressive cross-selling. Employees opened millions of unauthorized bank accounts under existing customers' names using fake email addresses and in some cases forged signatures without their permission. The employees resorted to opening bank accounts and ordering credit cards on behalf of unsuspecting customers due to the excessive sales quotas set by management and the pressure to meet their demands.

Corporate Culture and Identity

Wells Fargo's aggressive sales quotas and cross-selling practices, set up by managers and top executives, drove employees to create the fake accounts in order to meet the bank's demanding sales goals. District managers for the bank branches focused on expressing the importance of meeting daily cross-selling targets several times a day, even going as far as setting hourly goals. The daily cross-selling targets needed to be met if not the shortfall would be added to the next day's quota. Incentive programs such as 'Jump into January', established in 2003, aimed to reward higher sales activity while increasing the internal competition by comparing sales numbers on a whiteboard. Further programmes like 'Fly into February' and 'March into March' followed, increasing the pressure on front-line staff. Thus, employees were encouraged to cross-sell products and provided with financial compensation such as bonuses when a goal was achieved.

Top executives also expressed the importance of cross-selling and increasing the number of products-per-household. Former CEO, Dick Kovacevich, had a unique perspective on banking institutions and viewed the bank branches as 'stores' and bankers as 'salespeople' whose goal was to cross-sell to 'customers.' It was also expressed that the ideal number of products for each customer to have at Wells Fargo was eight. Kovacevich, along with other senior leaders, achieved to realize their cross-selling ambitions via aggressive sales goals and mantras **(Exhibit 1)** like 'Going for Gr-Eight', 'Eight is Great' and 'Run it like you own it' as well as incentivizing employees reaching targets and dismissing those who did not.

The Scandal Unravels

Insights from an unvarnished report, which was released to the bank's board and then to the public, aimed to bring light into the sales culture of the Wells Fargo bank. An independent consultant, Shearman & Sterling LLC, reviewed millions of accounts from May 2011 through July 2015 to investigate which customers were defrauded and to define remedial actions. The investigation included more than 100 interviews of current and former employees, the review of more than 1,000 existing and past incidents as well as 35 million documents. According to the report, there were signs that all employees, from the CEOs and top managers to the front-line staff, had a clue that something suspicious was occurring with the bank's cross sales strategy.

The bank revealed that 2.1 million ghost accounts were created without the knowledge or consent of its existing customers within this set time. Wells Fargo employees first began opening bank accounts for their family members, until that did not suffice. Soon after, they targeted minorities and disadvantaged people such as Native American tribes, immigrants, and elderly people in order to avoid getting caught. One way in which employees created the phony accounts was by moving small amounts of money from customers' existing accounts into the new accounts. Another strategy used in the creation of the fake accounts was by utilizing a 'pinning' practice that involves a banker obtaining a debit card and personally setting the pin without customer knowledge. The practice of 'pinning' along with impersonating customers online through the use of Wells Fargo email addresses allowed bankers to enroll customers in online banking without them being notified.

Customers were forced to pay bank fees on accounts they did not open or agree upon. The average fee charged to the fabricated accounts was $24. Wells Fargo earns 0.02% of its revenue on bank fees including card fees, service charges, overdraft fees and other charges. The creation of the fake accounts generated $2.4 million between 2011 and 2015 for the financial institution.

On 4 May 2015, the Los Angeles City Attorney filed a lawsuit in civil court against Wells Fargo, prompting others to get involved in the investigation. Wells Fargo was then ordered to pay a fine of $185 million to settle the lawsuit filed by the various regulators including the City and County of Los Angeles. The bank was fined $100 million by the Consumer Financial Protection Bureau, $50 million by the Los Angeles City Attorney and $35 million by the Office of the Comptroller of the Currency. Wells Fargo admitted in court that over 2 million accounts were opened without customer consent over a span of five years and were ordered to pay $5 million in customer refunds. A photo from the day in court is attached as **Exhibit 2.**

The investigation of the fake accounts was expanded to include records dating back to 2009 in order to determine how far back the defrauding of customers went. In August 2017 an additional 1.4 million fake accounts were uncovered, adding to the 2.1 million initially reported by the bank. In total 3.5 million fake accounts were discovered, spanning from January 2009 to September 2016.

Managerial Decisions

After a long day in court the executive board retreats back to Wells Fargo's headquarters in San Francisco to deliberate on the case. The board insists that you join them on making a management decision, as they believe you can provide valuable insight on the situation at hand. You politely accept their invitation and immediately begin to work on the case.

Taking on the role as part of the executive board of Wells Fargo, how should the following questions be addressed:

- ***What could be the main challenges within the Wells Fargo company?***
- ***Once the crisis came to light, how should Wells Fargo have communicated the crisis?***
- ***How can Wells Fargo rebuild trust and credibility with internal and external stakeholders?***
- ***What internal changes should be made in order to prevent a similar crisis from occurring again?***

Exhibit 1 Stumpf's sales mantra

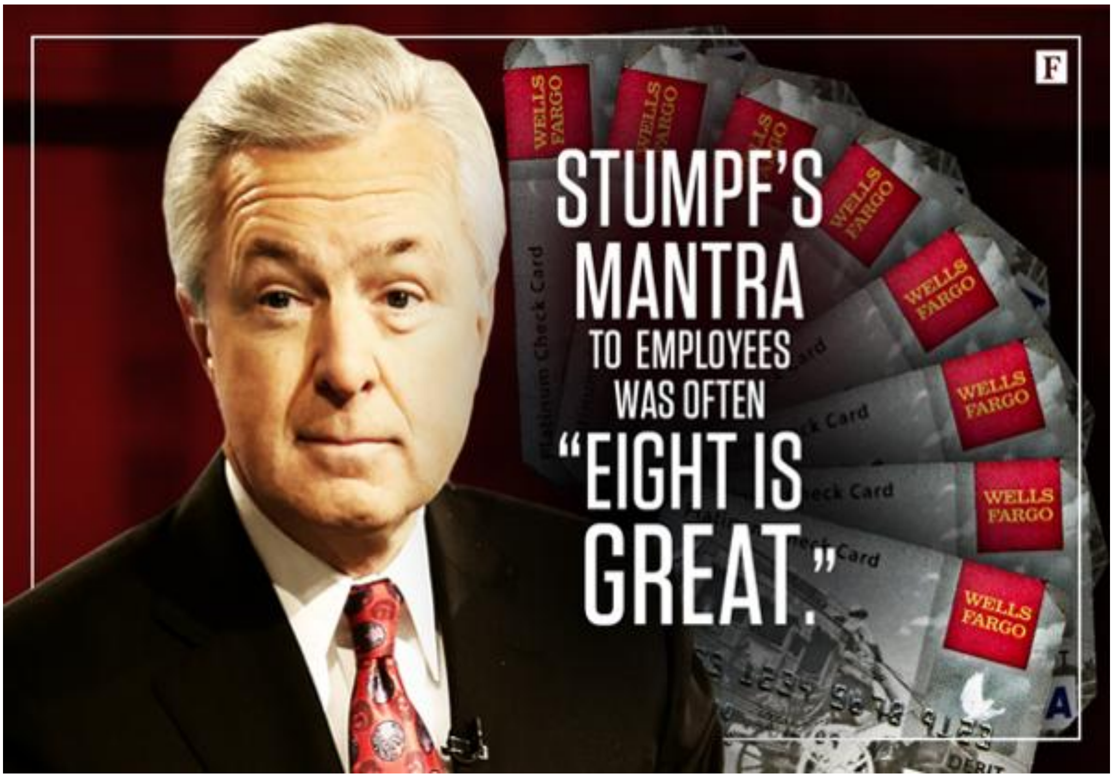

Exhibit 2 John Stumpf testifying in front of congress