

# **Wells Fargo - The Bank You Trusted is Busted**

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## **MANAGEMENT DECISIONS**

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The authors prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

## Reactions and Decisions

### Communication of the Crisis

Amid the charges brought about by federal regulators for the creation of the fake Wells Fargo accounts, the bank did not admit or deny the charges. On 8 September 2016, the CEO John Stumpf issued a company statement detailing the fine of \$185 million for the alleged fraudulent sales practices. However, Stumpf neglected to mention critical details such as that Wells Fargo had been under investigation for quite some time and that the case had been ongoing for five years.

His statement also did not mention how many customers were targeted and how many jobs were affected. Instead Stumpf downplayed the situation and quickly blamed the front-line employees for the incident. At that point, the company statement was Wells Fargo's official apology for the crisis. It should also be noted that Stumpf did not make a public statement apologizing for the situation.

### Firing 'Bad Apples' or Overly Stressed Employees?

As a result of the scandal, 5,300 employees, most of which were front-line bankers, were let go over the course of five years between 2011 – 2016. Moreover, ten executives were discharged or resigned voluntarily. Even though some measures were taken in the aftermath of the scandal, a few critics stress that it was still not considered enough of the bank, since they should have put more emphasis on holding lead managers responsible. This view was justified with the fact that many employees were put under immense pressure by these managers to reach sales goals.

In addition to this, a Spokeswoman of, amongst others, an Alliance for Bank Workers has mentioned that the board of the bank is still belittling the extent of responsibility the executives had at the company and instead are putting blame on the employees. Another aspect worth mentioning is that these employees tried to highlight the misconduct for years, but none of the executives seemed to give this issue attention until the day the company was fined with \$185 million dollars.

### Replacement of CEO

Soon after the hoax of Wells Fargo was revealed, the Chief Executive and Chairman John Stumpf resigned from both positions. In October 2016, Stumpf was replaced by Tim Sloan who had previously held senior level positions in the company. To improve corporate governance, the dual roles of chairman and CEO were separated. In the aftermath of the crisis, previous CEO Stumpf has acknowledged his responsibility for the deceits at Wells Fargo. However, he has declined that there would have been any issues with the company's culture.

A different stance has been taken by Tim Sloan who has stated that the culture of the company needs to be retrieved. Sloan has publicly apologized to the customers of the bank acknowledging the previous failures of Wells Fargo. Sloan has mentioned that his most crucial goal is to reestablish customers' trust to the bank and promised their expectations will not be betrayed again. Under the tenure of Sloan, the company's mission, vision and goals have been scrutinized and partly renewed.

Also Sloan has been heard by the US Senate and he has received strong criticism from a senior Senator Elizabeth Warren. In October 2017, Warren stated that Sloan should be suspended as he – according to the senator – was part of a culture where customer betrayals were made. According to Warren, new leaders are needed to execute reforms at Wells Fargo. Sloan has upheld his position by arguing that he has the trust of current employees and ability to make hard decisions. During the Senate's hearings, Sloan has declared that Wells Fargo is a better company than it was before, and it will be even better in the future.

## **Commitment Campaign**

In October 25, 2016 as a response to the negative attention, Wells Fargo was receiving from the press, social media, and shareholders the bank decided to launch a 'Commitment Campaign' aiming to restore trust and rebuild their reputation. As part of the campaign, a television advertisement was released outlining the bank's response to the crisis. The advert mentioned initiatives such as refunding customers that were impacted, receiving alerts when new accounts are made and eliminating sales goals for bankers.

Along with the television advertisement (**Exhibit 1**) Wells Fargo released a printed advertisement (**Exhibit 2**) shown in major newspapers across the U.S. The printed advertisement titled 'Moving forward to make things right' depicts the actions Wells Fargo has taken in wake of the phony accounts scandal while emphasizing their commitment to stakeholders. In an attempt to restore their image, however, the campaign received backlash for being too vague and not specifying how they want to reach their new goals.

## **Internal Handling of the Situation**

A new compensation plan was introduced which was based on incentives like customer satisfaction and achievement of team goals. Product sales-related goals were not included in the renewed incentive program. It was also aligned that the field offices of the bank should be perceived as branches and not as 'stores' which means that no employee gets evaluated on sold products and numbers reported to investors. The Spokeswoman for Wells Fargo emphasized that the bank focuses now on having the culture, the processes and the controls to push the company to the right direction as well as regaining the trust from customers and the public.

To reach these goals, a centralization of the risk as well as HR functions are needed which includes a reporting of the employees to their corporate chief with no touch points to the business units at all. Furthermore, an office of ethics was established which accounts for the risk committee of the board. Sloan underlined that culture comes not from policy but from a daily behaviour of leaders. His aim has been to create a strong and unique corporate culture which naturally will take time. The company made changes to its vision which is based on the following five values: What's right for customers; People as a competitive advantage; Ethics; Diversity and inclusion; Leadership.

## **Building Better Everyday**

After the scandal Wells Fargo was faced with the challenge to rebuild its reputation. In an attempt to move past the scandal, the bank's response was to launch a new advertising campaign highlighting their online tools and innovative features. The integrated marketing campaign, that was the first major one after the scandal came to light, was launched in April 2017. The new brand platform called 'Building Better Every Day' was also introduced – that being focused on the efforts to build a better bank while rebuilding customer and employee trust in the company. The campaign, which ran from April to October 2017, included a variety of advertisements (**Exhibit 3**) across different channels ranging from television and print to mobile banners.

Following the launch of the campaign, CEO Tim Sloan released an open letter (**Exhibit 4**) addressing the initiatives taken to improve the bank. The letter was published in newspapers in over 30 markets in the US. In the letter Sloan mentions making things right by issuing customer refunds and providing assistance to those whose credit scores were affected. The letter emphasizes maintaining a higher level of transparency during the remainder of the fake accounts investigation. Finally, Sloan thanks those who have supported the company and underlines the importance of restoring trust in the brand.

**Exhibit 1**    Commitment campaign

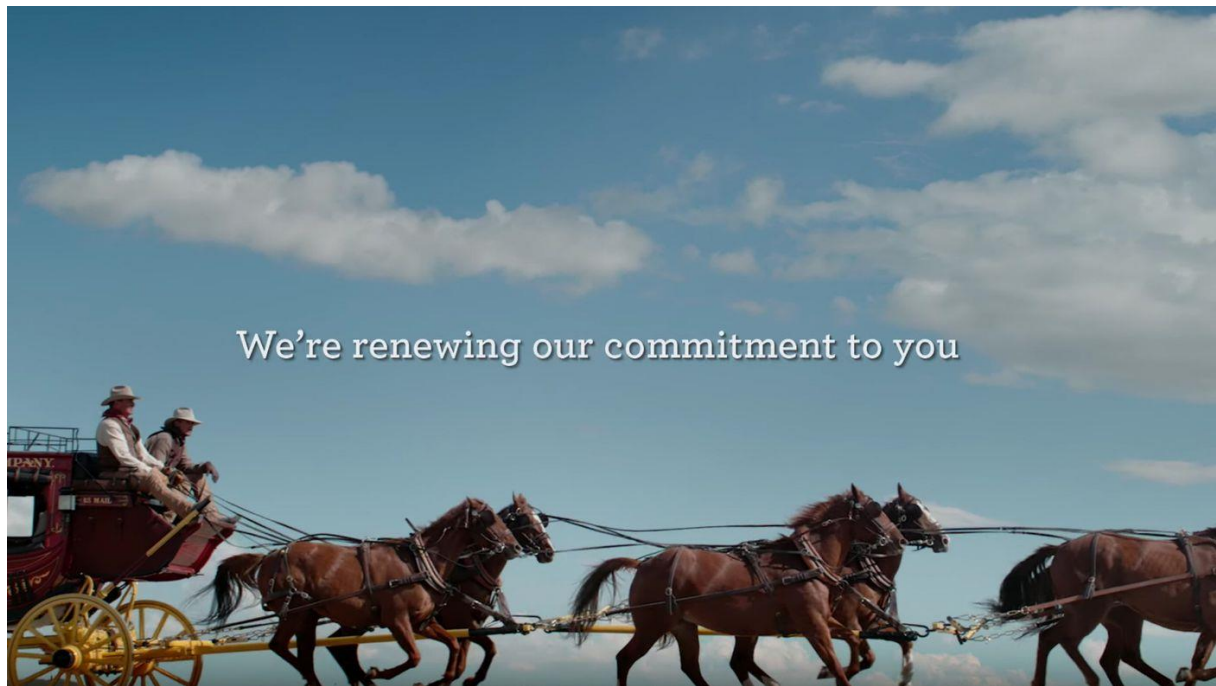


Exhibit 2 Moving forward to make things right



# Moving forward to make things right.

We are deeply committed to serving you and your financial needs. We know we did not live up to that commitment. We want you to know that we're making things right and that we're even more dedicated to serving you and making sure you know where you stand. There is nothing more important than for you to experience the very best from us.

That's why we've already taken action:

**Putting your interests first:** We have eliminated product sales goals for our Retail Banking team members who serve customers in our bank branches and call centers. This means that their focus will be on meeting your financial needs, not meeting sales goals.

**Proactively communicating with you:** We send a confirmation after you open a new consumer or small business checking, savings or credit card account so that you know what is happening and can tell us if anything we've confirmed is different than what you expected.

**Full transparency:** You can always see your eligible accounts any time when enrolled in Wells Fargo Online.<sup>®</sup>

**Fixing what went wrong:** We have provided full refunds to customers we have already identified and we're broadening our scope of work to find customers we may have missed. If we have any doubt about whether one of your accounts was authorized, and any fees were incurred on that account, we will contact you and refund fees.

If you have any concerns about your accounts or any aspect of your relationship with Wells Fargo, please come into a branch or call us on our dedicated hotline 24/7 at 1-877-924-8697.

The trust you place in us means everything and we will work hard every day to earn it back.

[wellsfargo.com/commitment](https://wellsfargo.com/commitment)  
1-877-924-8697



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**Exhibit 3**      Building better everyday





Exhibit 4 Open letter by CEO Tim Sloan



# Thank you.

To all who have stood by us as we have worked to make things right at Wells Fargo, we thank you. We know you have many choices when it comes to banking, which is why we feel it's our privilege to serve you.

I became CEO of Wells Fargo six months ago, following our September 2016 retail sales practices settlement. My first act was to apologize to our team, our customers, and the public for our company's mistakes. At that time, I made a commitment to build a better bank, and to earn back your trust.

While there is still work to do, there has been progress that I want to share with you:

- **We've taken many steps to make things right for our customers.** So far, we've refunded approximately \$3.2 million to approximately 130,000 retail and small business accounts. We've also agreed to a preliminary \$110 million class action settlement that will go toward further customer refunds. And to any customer whose credit might have been affected by unauthorized account openings, we commit to you that we will make things right.
- **We've made changes to ensure we always put our customers' needs first.** We eliminated product sales goals and changed how we pay our retail bankers. We've also invested in our people, increasing the pay for our entry-level team members across the country.
- **We've strengthened our ethics and risk management.** This includes creating a new Office of Ethics, Oversight, and Integrity; adding protections so anyone can feel safe reporting their concerns to our Ethics Line; and expanding training for our managers and bankers, so they can better respond.
- **And we've demanded greater accountability from ourselves.** We've changed leadership at our Community Bank and terminated executives linked to inappropriate sales practices. Our Board cancelled all 2016 cash bonuses for eight senior leaders—including myself—who were on the company's Operating Committee prior to November 1, 2016. And we changed our Board structure to separate the roles of Chairman and CEO.

Building a better bank is about fixing what went wrong and committing to find new and better ways to serve our customers. Even as I write this, we continue to introduce new ways to deliver services, develop our people, and manage risks.

All that said, I want to assure you that regaining your trust remains our top priority. In the near term, our Board of Directors will issue the results of their independent investigation. As we process those findings we will continue to update you on our efforts.

Again, thank you for standing by Wells Fargo as we build a better bank.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Sloan", with a stylized flourish at the end.

Timothy J. Sloan  
Chief Executive Officer and President  
Wells Fargo & Company

For updates on our rebuilding efforts, I invite you to visit [www.wellsfargo.com/commitment](http://www.wellsfargo.com/commitment)