Wells Fargo: Fall from Great to Miserable: A Case Study on Corporate Governance Failures

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Abstract

This case study examines corporate governance issues at Wells Fargo and Company. The bank was embroiled in controversies due to its cross-selling tactics and the enormous pressure the management exerted on the employees to ensure its success. Investigations by media, followed by statutory agencies, revealed the creation of fake accounts without the knowledge of the customers, sometimes forging their signatures. The CEO of the bank had to resign after facing a hostile US Senate Banking Committee hearing. Wells Fargo had to pay a fine of USD185 million to various statutory agencies. The board used clawback provisions on the CEO and the head of Community Bank. The latter was held responsible for the audacious sales culture which resulted in sales integrity issues. Wells Fargo seemed to have a perfect board, a lead director and a much acclaimed CEO, apart from seven board committees. External auditors were one of the 'big fours'. This case is intended to stimulate discussion in the class on why corporate governance practices fail, despite a seemingly healthy governing structure.

Keywords

Wells Fargo, corporate governance, cross-selling, unethical, employee misconduct

Disclaimer: This case is written for classroom discussion and is not intended to illustrate either effective or ineffective handling of an administrative situation, or to represent successful or unsuccessful managerial decision-making, or endorse the views of the management. The views and opinions expressed in this case are those of the authors and do not necessarily reflect the official policy or position of *South Asian Journal of Business and Management Cases*.

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Introduction

Scott Reckard, contract reporter for *Los Angeles Times* (*LA Times*), came up with a damning story that appeared in the newspaper four days before the Christmas of 2013—a report that appeared to surprise many, including John Stumpf, the then Chairman and CEO of Wells Fargo. It turned out to be the beginning of a series of events that ultimately cost him his job and the bank USD185 million in penalties. The report accused Wells Fargo, a major retail bank in the USA with 6,300 offices and USD237 billion in market valuation, of gross unethical practices in cross-selling (Reckard, 2013). Using a cross-selling strategy, the bank ensured multiple accounts with the same customer through various financial products such as savings bank accounts and credit cards. Branch managers put immense pressure on the field and conducted an hourly review. If the day's target was not met, the employees had to stay back or miss the weekend. There were regular threats of dismissals. Employees were asked to ensure that each Wells Fargo customer held a minimum of four accounts, preferably eight, because the bank was 'going for gr-8'!

LA Times reported that many accounts were opened with forged signatures, without the knowledge of the customers. Employees often begged relatives to open accounts. It quoted several cases where the managers resigned refusing to follow unethical practices or opted for early retirement, unable to meet the excessive pressure. The cross-selling sales strategy of Wells Fargo was earlier reported by *Wall Street Journal*, though not with such caustic comments but enough to raise red flags (Smith, 2011). Unfortunately, for Wells Fargo and its stakeholders, the practice continued.

Following the *LA Times* report of widespread ethical violations and forced cross-selling, Wells Fargo conducted investigations and terminated some employees. The extent of damage, however, was not visualized by the management. When Stumpf wanted to know the extent of malpractices in cross-selling, he was told that approximately one per cent of the sales staff of Community Bank was terminated for misconduct. This was taken as a non-serious issue by the top management. Matthew Raphaelson, Head of Community Bank Strategy and Initiatives Department, commented, 'mind boggling to me it's so low—I think it shows our [employees] are significantly more ethical than the general population (no data to back up, just impressionist comment!)' (Wells Fargo, 2017, p. 33). Raphaelson was one of the four key executives who was fired by Wells Fargo in February 2017.

In May 2015, the Los Angeles City (LA City) attorney filed a suit against Wells Fargo for fraudulent practices. At this point, serious internal investigations started. Soon it was known that many customers were charged transaction fees for new accounts that they never wanted. The damage to the reputation of the bank began to emerge. Unfortunately for the bank, the senior leadership either refused to see the signals or tried to downplay the whole issue. For example, seeing the initial report from the Community Bank, post-filing of the law suit by LA City Attorney, Stumpf wrote to Tim Sloan, the then Chief Financial Officer (CFO):

> I really feel for Carrie (Head of Community Bank) and her team. We do such a good job in this area. I will fight this one to the finish. Do you know only around 1% of our people lose their jobs gaming the system, and about 2/3 of those are for gaming the monitoring of the system, i.e. changing phone numbers, etc. Nothing could be further from the truth on forcing products on customers. In any case, right will win and we are right. Did some do things wrong—you bet and that is called life. This is not systemic. (Wells Fargo, 2017, pp. 55–56)

Carrie Tolstedt headed Community Bank and anchored the high-pressure, high-growth cross-selling initiative. Succumbing to pressure, she resigned in July 2016.

Despite downplaying the seriousness of the unethical practices, matters quickly escalated as the Office of the Comptroller of Currency (OCC) and Consumer Financial Protection Bureau (CFPB) carried out the investigations. OCC, a division of the Treasuries Department, had in fact earlier questioned Tolstedt on the unusually high whistle-blower cases, when she replied that 'Wells Fargo encourages valid complaints which are then properly investigated' (Associated Press, 2017, para 6). In September 2016, CFPB fined Wells Fargo USD100 million for illegal opening of accounts and similar unauthorized actions. CFPB found that more than two million unauthorized accounts have been opened by the bank without the knowledge of the customers. The bank was also required to pay USD35 million to OCC and USD50 million to the LA city attorney as additional damages. CFPB was set up, after the 2008 financial crisis, by the US Government to ensure fair treatment to consumers by banks and financial institutions. The bureau found fault with Wells Fargo for opening deposit accounts, shifting funds from one account to the other, creating credit card accounts and issuing debit cards—all without authorization. Many phony email addresses were created, CFPB noted, to enrol consumers in online banking services (CFPB, 2016). These investigative findings surprised the public; it even caught unawares. The board was particularly in the dark that Wells Fargo had fired approximately 5,300 employees for sales practice violations between January 2011 and March 2016. Stumpf appeared before the Senate Banking Committee in September 2016. Senator Elizabeth Warren, one of Harvard's legal luminaries and the force behind the formation of CFPB, told Stumpf point blank during the hearing that his leadership was 'gutless' (Sonnenfeld, 2016, para 7). On 12 October 2016, Stumpf resigned.

Wells Fargo and the Sales Integrity Issues

Wells Fargo, based in San Francisco, was the world's largest bank by market capitalization in 2015. Table 1 shows the six-year financial performance up to 2015. The subprime crisis had not affected the bank much; Wells Fargo avoided risky lending and focused on consumer lending and banking services. It was featured as one of Fortune's most admired companies (Lorenzetti, 2015). Warren Buffet's Berkshire Hathaway Inc is its biggest shareholder, with 9.92 per cent stake (Tan, 2017). Following the scandal, the market capitalization fell drastically, leaving it behind JP Morgan Chase. Wells Fargo & Company's primary subsidiary was Wells Fargo Bank with its headquarters in Sioux Falls, South Dakota. It expanded the business with the merger of Norwest Corporation in 1998 and acquisition of Wachovia, a financial services company, in 2008. In the 2001 bestseller, *Good to Great: Why Some Companies Make the Leap and Others Don't*, Wells Fargo was identified as one of the 11 greatest companies of that time, overshadowing its competitor, Bank of America (Collins, 2001). Wells Fargo remains the world's fifth largest public limited company today (*Forbes*, 2017).

Wells Fargo has three business streams: Community Banking, Wholesale Banking and Wealth and Brokerage and Retirement. The bank boasts of more than 8,600 locations, 13,000 ATMs, business in 42 countries and approximately 26,9000 team members (Wells Fargo, 2016). The company repeatedly stressed the importance of its visions and value statement in its annual reports.

The 2015 annual report stated:

> Our vision is to satisfy our customers' financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America's great companies. We aspire to create deep and enduring relationships with our customers by providing them with an exceptional experience and by discovering their needs and delivering the most relevant products, services, advice, and guidance. (p. 30)

Table 1. Six Year Summary of Select Financial Data

(in millions, except per share amounts)		2015	2014	2013	2012	2011	2010	% Change 2015/ 2014	Five-year compound growth rate
Income statement									
Net interest income	$	**45,301**	43,527	42,800	43,230	42,763	44,757	**4%**	**–**
Noninterest income		**40,756**	40,820	40,980	42,856	38,185	40,453	**–**	**–**
Revenue		**86,057**	84,347	83,780	86,086	80,948	85,210	**2**	**–**
Provision for credit losses		**2,442**	1,395	2,309	7,217	7,899	15,753	**75**	**(31)**
Noninterest expense		**49,974**	49,037	48,842	50,398	49,393	50,456	**2**	**–**
Net income before noncontrolling interests		**23,276**	23,608	22,224	19,368	16,211	12,663	**(1)**	**13**
Less: Net income from noncontrolling interests		**382**	551	346	471	342	301	**(31)**	**5**
Wells Fargo net income		**22,894**	23,057	21,878	18,897	15,869	12,362	**(1)**	**13**
Earnings per common share		**4.18**	4.17	3.95	3.4	2.85	2.23	**–**	**13**
Diluted earnings per common share		**4.12**	4.10	3.89	3.36	2.82	2.21	**–**	**13**
Dividend declared per common share		**1.475**	1.350	1.150	0.880	0.480	0.200	**9**	**49**
Balance sheet (at year end)									
Investment securities	$	**347,555**	312,925	264,353	235,199	222,613	172,654	**11%**	**15**
Loans		**916,559**	862,551	822,286	798,351	769,631	757,267	**6**	**4**
Allowance for loan losses		**11,545**	12,319	14,502	17,060	19,372	23,022	**(6)**	**(13)**
Goodwill		**25,529**	25,705	25,637	25,637	25,115	24,770	**(1)**	**1**
Assets		**1,787,632**	1,687,155	1,523,502	1,421,746	1,313,867	1,258,128	**6**	**7**
Deposits		**1,223,312**	1,168,310	1,079,177	1,002,835	920,070	847,942	**5**	**8**
Long-term debt		**199,536**	183,943	152,998	127,379	125,354	156,983	**8**	**5**
Wells Forgo stockholders' equity		**192,998**	184,394	170,142	157,554	140,241	126,408	**5**	**9**
Noncontrolling interests		**893**	868	866	1,357	1,446	1,481	**3**	**(10)**
Total equity		**193,891**	185,262	171,008	158,911	141,687	127,889	**5**	**9**

Source: Wells Fargo Annual report (2015).

Cross-Selling

Cross-selling was adopted as a strategy by Norwest Corp CEO Richard ('Dick') Kovacevich in 1998. Kovacevich was very aggressive about banking, often comparing its strategy to Wal-Mart's strategy of selling socks; for him, Norwest in banking was the mirror image of Walmart in retailing. Kovacevich once drew an analogy between cross-selling and the Loch Ness monster—'always talked about, but never seen' (McLean, 1998, para 9). For him, it was a means of deepening engagement with customers. He believed that by having multiple accounts with customers in different financial services such as checking accounts, credit cards and insurance, the bank can cement ties with them. Against the industry average of two, Norwest had four cross-selling accounts per customer. After the merger, Kovacevich was retained as the President of Wells Fargo and brought in the culture of cross-selling to the bank. In 2007, John Stumpf took over as the CEO and Kovacevich continued as the Chairman till his retirement in 2010. The cross-selling strategy was carried forward by Carrie Tolstedt who had joined Norwest in 1986 and headed Wells Fargo's Community Bank from 2007. The bank had started an intensive campaign for cross-selling under her leadership. Tolstedt had the strong support of Stumpf, who himself was a proponent of cross-selling. Cross-selling made much sense to the Wells Fargo management (see Figure 1).

Principal Players

In September 2016, the independent directors of the board formed an Oversight Committee, consisting of four independent directors to investigate all relevant issues. The report critically analysed the roles played, as the scandal unfolded, by its principal executives and the board. Of particular interest are the roles played by John Stumpf, Carrie Tolstedt, Tim Sloan, and Michael Loughlin.

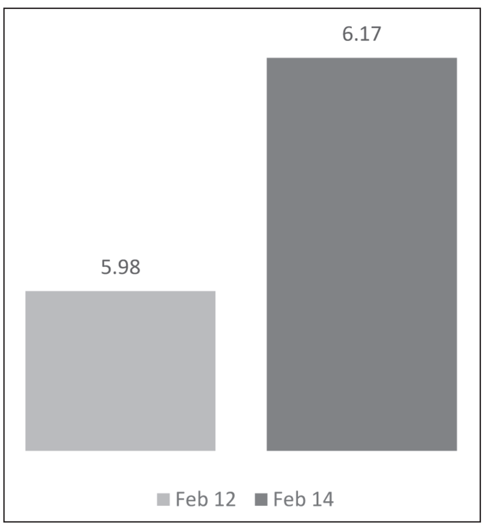

Figure 1. Percentage Growth of Cross-Sell

Source: Wells Fargo 2014 Investor Day.

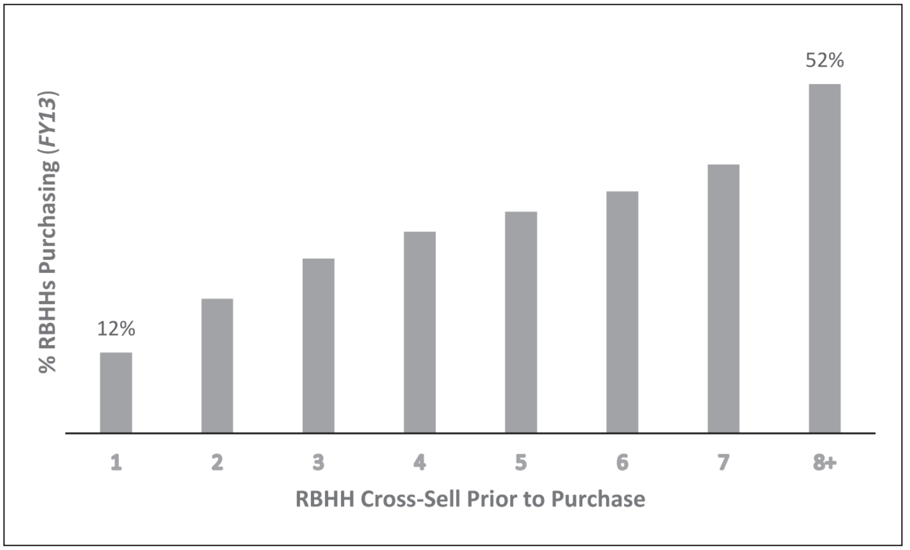

Figure 2. Annual Purchase of Retail Bank Households Against Cross-Selll
Source: Wells Fargo 2014 Investor Day.

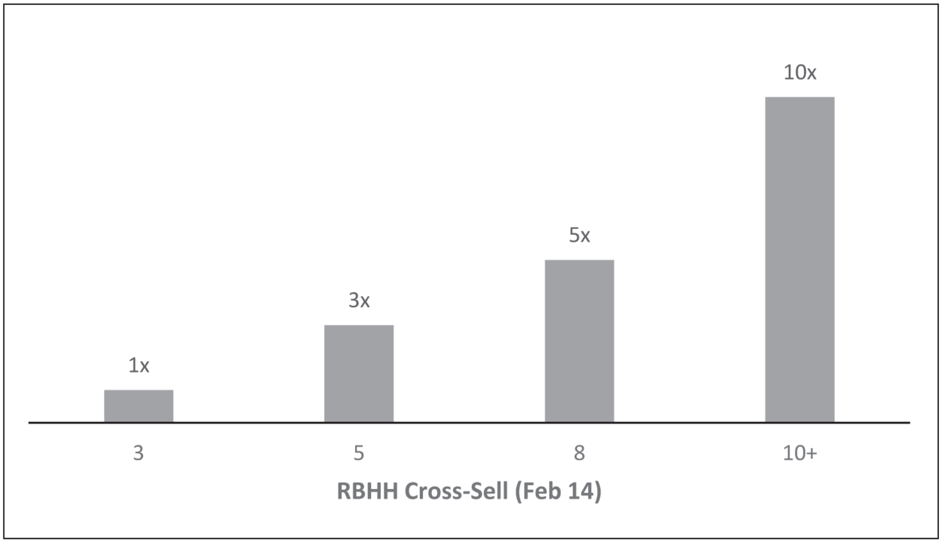

Figure 3. Profit Per Retail Bank Households Against Cross-Sell
Source: Wells Fargo 2014 Investor Day.

John Stumpf, like Kovacevich, came from Norwest and became, after the merger in 1998, the Head of Wells Fargo's South Western Banking group. He rose steadily to become its CEO. After the retirement of Kovacevich, he took the dual role of chairman and CEO. Stumpf supported the aggressive style of Tolstedt who believed in the mantra that the Community Bank had to 'run the business like they owned it' (Schafer, 2017, para 6). He admired the tenacity of Tolstedt and was reluctant to intervene, even after the mounting evidence of malpractices in cross-selling surfaced. When the independent Director and Chair of Risk Committee Enrique Hernandez criticized Tolstedt, he acknowledged the problems of her management style but praised her as the best banker of America. The decentralized nature of the bank meant that Tolstedt had absolute freedom, since she had the support of the CEO. Stumpf's long associations with Tolstedt probably clouded his better judgement. During the House Financial Services Committee testimony, he acknowledged his failure in preventing the unethical practices in time and accepted accountability (Wells Fargo, 2017). Stumpf had to forgo an unvested equity of USD46 million; in addition, USD26 million was taken back through clawback provision.

Carrie Tolstedt became the Head of Regional Banking Division of Community Bank in 2002 and the Head of Community Bank in 2007. Tolstedt rebuffed any attempt of interventions by other department officials, particularly that of Corporate Risk Officer Michael Loughlin. To improve sales performance, she initiated a corporate culture of intense competition among its employees, including preparation of daily score cards and hourly monitoring. The regional managers fell in line and put excessive burden on local managers and employees. In one typical humiliating game to exert pressure, the branch managers in themed attires were required to run to a white board to write down their performance figures, in a practice called *running the gauntlet*. Several rigorous campaigns were initiated; one such campaign christened 'Jump to January' particularly promoted misconduct. To achieve the high targets of January, many branch managers did not report the December figures entirely and carried them forward to January. In many cases, the employees had to resort to unethical practices to achieve the impossible figures. The excessive pressure on employees had a debilitating effect; the employee turnover was 30 per cent, which at one point rose to 42 per cent. Tolstedt's response was that there was no dearth of job applicants (Wells Fargo, 2017). The incentives were tied to the employees meeting certain minimum goals; on top of that, the achievement of high targets were linked to performance appraisal from 2010 onwards. Tolstedt did not allow any intervention of the HR department on the complaints of employees on excessive pressure. These methods of creating pressure among the branch managers and the threat of humiliation finally resulted in a toxic sales culture leading to low employee morale and unethical practices.

Tim Sloan was the CFO from 2011 to 2014. In November 2015, he became the Chief Operating Officer (COO) and Tolstedt's supervisor. He had little previous experience in sales matters. When *LA Times* came up with the story in December 2013, it quoted Sloan, 'I'm not aware of any overbearing sales culture' (Reckard, 2013, para 18). After assuming the office of COO, he was given six months of time to see whether Tolstedt should continue in the organization or not. In November 2016, after the departure of Tolstedt, he acknowledged that the problem was much severe than he imagined. Sloan, upon the resignation of Stumpf, took over as CEO of Wells Fargo. Sloan maintained that he was not aware, before the scandal erupted, of any excessive sales pressure and wrong practices. Many, including Senator Elizabeth Warren, were not convinced that Sloan could absolve his responsibility. Senator Warren was particularly critical, saying such a stand either showed complicity or incompetence (Campo & Nova, 2017).

Michael Loughlin became the Chief Risk Officer (CRO) in 2010. He did not have any direct authority over sales practices but could escalate it to the Enterprise Risk Management Committee (ERMC), the CEO and the board. EMRC was the forum through which various risk-related subjects such as credit, strategy and image were reported as high-risk areas to the board's Risk Committee. Apart from Loughlin,

Table 2. Wells Fargo Board of Directors as Per the 2013 Proxy Statement

Sl. No.	Director	Age	Position	Director since	Area of expertise	Also Director in
1	John D. Baker I	65	Independent Director	2009	Real estate management	Patriot Transportation Holding, Inc. Texas Industries, Inc
2	Elaine L. Chao	60	Independent Director	2011	US government	News Corporation Protective Life Corporation
3	John S. Chen	58	Independent Director	2006	Wireless communications	BlackBerry Limited, The Walt Disney Company
4	Lloyd H. Dean	63	Independent Director	2005	Healthcare	Cytori Therapeutics, Inc. Premier, Inc
5	Susan E. Engel	67	Independent Director	1998	Online luxury retailer	None
6	Enrique Hernandez,Jr	58	Independent Director	2003	Security services	Chevron Corporation McDonald's Corporation Nordstrom, Inc. (Chairman of the Board)
7	Donald M. James	65	Independent Director	2009	Construction materials	Vulcan Materials Company Southern Company
8	Cynthia H. Milligan	67	Independent Director	1992	Higher education	Calvert Funds Kellogg Company Raven Industries, Inc.
9	Federico F. Peña	67	Independent Director	2011	Private equity	Sonic Corp.
10	James H. Quigley	62	Independent Director	2013	Audit, tax, financial advisory	Hess Corporation Merrimack Pharmaceuticals, Inc.
11	Judith M. Runstad	69	Independent Director	1998	Law firm	None
12	Stephen W. Sanger	67	Lead Director	2003	Packaged foods	Pfizer Inc
13	John G. Stumpf	60	Chairman & CEO	2006		Chevron Corporation Target Corporation

Source: Wells Fargo Proxy Statement (2014).

ERMC consisted of divisional heads, HR director, general counsel and chief operational risk officer (CORO) among others. When Loughlin heard about the excessive sales pressures, he made enquiries with Community Bank officers. However, this was strongly objected to by Tolstedt as undermining her authority (Wells Fargo, 2017). The group risk officers reported to business heads and to CORO. CORO did not consider sales practices as her realm and was largely confined to the investigation of financial matters. This continued till the reporting structure was changed in 2013, where the group risk officers began to report to Loughlin. McKinsey was engaged by Loughlin to do risk assessment, but the report did not address the decentralization issue, nor did it discuss the sales practices. It, however, raised the important point of the necessity of increased oversight. Loughlin made efforts, despite the opposition from Community Bank, to raise the issues on sales practices and brought it to the notice of the board in 2014. Loughlin reported to the Risk Committee that the staffing of risk officers is insufficient for an effective monitoring mechanism. He continued to point out the employee attrition and whistle-blower cases on sales practices, but except for the independent Director Hernandez, other directors did not question Tolstedt or the sales practices (Wells Fargo, 2017).

The board of directors consisted of 13 members in 2014, and all except Stumpf were independent directors (see Table 2). It had seven standing committees—Audit & Examination (A&E), Corporate Responsibility, Credit, Finance, Governance & Nominating and Risk. From 2010, a list of noteworthy risks was prepared by ERMC to the board, which did not contain any sales integrity issues. Sales integrity issues were prepared for the A&E committee. Since the A&E committee's fundamental roles were connected to financial and legal matters, sales integrity issues were not given much importance till 2013, when *LA Times* first reported unethical practices. The Risk Committee of the board took proactive interest after the *LA Times* report, and Hernandez, who chaired the Risk Committee, asked Loughlin to have tighter monitoring of sales integrity issues. Only in February 2014, the sales integrity issues were first flagged as noteworthy to the Risk Committee. When this was raised at the board level, Stumpf defended Tolstedt, saying that cross-selling is a long-term corporate strategic initiative (Wells Fargo, 2017).

The report of independent directors of Wells Fargo further stated that the first major questioning of the sales integrity issues by the board occured only in April 2015 when Tolstedt made a presentation to the board. She said the issues were confined only to a few individuals and that a tighter mechanism was now in place. The incentive scheme was being modified to ensure good behaviour. The board was entirely dissatisfied with what Tolstedt said. Even in a May 2015 board meeting, Tolstedt gave a figure of less than 250 integrity-related employee terminations, whereas it was approximately 2,500 during 2013–2014 alone. Meanwhile, Accenture was appointed by Wells Fargo to conduct investigation into Community Bank sales practices. Accenture made a presentation to the board in October 2015, which was followed by presentations of Tolstedt and Loughlin. Hernandez believed that Tolstedt was not coming clean with facts and was critical of her stand. In December 2015, he along with the Lead Director Stephen Sanger told Stumpf that Tolstedt should not continue.

In February 2016, when the HR committee assembled to fix the compensation for 2015 for the senior managers, Tolstedt had still the support of Stumpf. Hernandez was, however, openly critical. She was now on a six-month 'probation' period under Sloan. Only in September 2016, during the CFPB settlement, the board came to know about the extent of damage the sales integrity issues had brought in and about the termination of 5,300 employees between 2011 and 2016. As mentioned earlier, the board took decisive actions in respect of compensation for Stumpf and Tolstedt, including invoking clawback provisions. The independent members of the board formed an Oversight Committee for sales practices. The Oversight Committee consisted of four directors including Sanger and Hernandez. The Committee appointed Shearman & Sterling LLP for a full investigation into the sales practices (Wells Fargo, 2017).

Corporate Governance Practices

As per the Wells Fargo Annual Report (2013) and Proxy Statement (2014), the risk oversight was done primarily through the CRO, who reported to the Risk Committee of the board. In addition, the Wells Fargo Audit services (WFAS), who were the internal auditors, headed by the Chief Audit Officer, reported to the A&E Committee. The primary function of the risk framework, as envisaged in the annual report, was to assist the board in risk oversight responsibilities and support the senior management in achieving strategic objectives by enhancing and maintaining risk framework and emphasizing accountability. There were seven standing committees of the board, including the Risk Committee. The Risk Committee also functioned as the coordinating committee to the other standing committees on the risks faced in their respective fields. Further, the chairmen of the other standing committees were members of the Risk Committee, to avoid duplication of work. The Risk Committee was assisted by the CRO and his administrative set-up. In every board meeting, it received reports from each of the standing committees. In addition, the EMRC, consisting of senior management representatives, submitted quarterly reports to the board on noteworthy and emerging risks. Details of the responsibilities of the board committees were elaborately specified (see Table 3).

On paper, Wells Fargo had an almost ideal board, filled with independent directors, who regularly met. The policy also states that the independent directors should not be in more than three boards other

Table 3. Roles and Responsibilities of the Board Committees

<table>
<tr><td colspan="6">Board of Directors
Annually approves overall enterprise risk appetite statement</td></tr>
<tr><td colspan="6">Risk Committee
Oversight includes :
– enterprise-wide risk management framework, including policies, processes and resources necessary to execute the Company's risk programme
– aggregate enterprise - wide risk profile and alignment of risk profile with strategy, objectives and risk appetite
– risk appetite statement, including changes in risk appetite and adherence to risk limits
– emerging risks and risks associated with aquisition and significant new business or strategic initiatives</td></tr>
<tr><td>Audit and Examination committee</td><td>Credit Committee</td><td>Corporate Responsibility Committee</td><td>Finance Committee</td><td>Goverance and Nominating Committee</td><td>Human Resources Committee</td></tr>
<tr><td>Oversight includes:
– internal controls over financial reporting
– operational, legal and compliance risks
– major financial risk exposures and general process for risk assesments and management
– external auditor performance and internal audit function</td><td>Oversight includes:
– credit risk and trends
– allowance for credit losses, including governance and methodology
– adherance to enterprise credit risk appetite metrics and concentration limits
– compliance with lending policies and credit underwriting standards
– credit stress testing activities</td><td>Oversight includes:
– mortgage and other consumer lending reputational risks
– reputation with customers, including customer complaint and service matters
– social responsibility risks including political and environmental risk</td><td>Oversight includes:
– interest rate risk, including MSR
– market risk, including trading and derivative activities
– liquidity and funding risk
– investment risk, including fixed income and equity protfolios
– capital adequacy and assesment planning, and stress testing activities</td><td>Oversight includes:
– Corporate governance compliance
– Board and committee performance</td><td>Oversighting includes:
– compensation risk management
– talent management and succession planning</td></tr>
</table>

Source: Wells Fargo Proxy Report (2014).

than that of Wells Fargo. The board showed diversity. The members were elected each year by the shareholders. The board committees covered all areas of operation and risk. The board had experts in many fields; for example, Ms Elaine Chao was once the US Secretary of Labour and also an MBA from Harvard and had in-depth knowledge of sales and human-resource issues. Cynthia Milligan was a bank regulator and lawyer.

Corporate governance practices, election of directors, qualifications and responsibilities are all laid out in proxy statements and on the website. Even though the positions of the CEO and the chairman were not separated, Wells Fargo had a Lead Director, Stephen Sanger, who also headed the Governance and Nominating Committee. The lead director had authority to call independent directors to meet and act as 'sounding boards'. The executive remuneration was a mixture of salary and incentive. Shareholders had a 'say on pay' of the executives. The system also allowed anyone to approach the board through email or by post, which was also stated in proxy statements. In addition, the WFAS conducted regular audits including the 'culture' audit to identify any integrity issues. The external auditors were KPMG.

The moot point is, with a text book board, one of the best bankers of the time as CEO and elaborate corporate governance structures, why did the systems fail to curb sales integrity issues? Wells Fargo had an almost perfect board. Stumpf was selected as the Banker of the Year by *American Banker* in 2013, and Tolstedt was selected as one of the most powerful women in the banking industry in 2015. The bank had a clear ethics vision. Most directors were independent: experts in their own fields. The seven board committees and the position of the lead director were meant to ensure full and fair oversight and conduct of fiduciary duties of the board. Despite all these, corporate governance could not help in preventing such a major scandal. Analysts attribute several reasons in hindsight: a sales culture which ignores what customers want, neglecting early warning signals, a decentralized nature of risk oversight, an unquestioning board, CEO's favouritism, territorialism by Tolstedt and so on. If that is the case, what guarantee do we have of a robust corporate governance regime elsewhere?

Conclusion

After the resignations of Stumpf and Tolstedt, Sloan took over as CEO. The offices of the Chairman and the CEO have been separated. Betsy Duke, the new Chair of the Board of Directors, took charge effective from January 2018. Some of the oldest serving directors have retired. It has been decided to amend the bylaws to ensure that the chairperson be an independent director. A mechanism of self-review of directors has been introduced, assisted by a third party. Three additional independent directors are expected to be appointed before 2018 AGM. Wells Fargo has also formed a stakeholder advisory council which will give periodic feedback from the perspective of various stakeholders.[1] These are important steps.

Yet, the troubles for Wells Fargo are far from over. In February 2018, US Federal Reserve banned further growth of the bank till a robust corporate governance mechanism is in place (Gara, 2018).

The fall had been extraordinarily steep for the bank which was featured as one of the 11 greatest companies in 2001. What lessons can organizations learn from it?

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this case.

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Note

1. As per Wells Fargo news releases. Refer to https://newsroom.wf.com/press-release/corporate-and-financial/wells-fargo-announces-board-changes and also https://stories.wf.com/wells-fargo-announces-changes-board-directors-actions/ On 4 February this year, the New York times also reported that Wells Fargo has agreed to Federal Reserve that four of its independent directors, including Hernandez would step down. For details, refer https://www.nytimes.com/2018/02/04/business/wells-fargo-fed-board-directors-penalties.html

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