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Wells Fargo CEO Finds Himself on Defense

By Ben Eisen
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A long list of challenges confronted Wells Fargo & Co. Chief Executive Charles Scharf when he was brought in to restore the bank's tarnished reputation. In the year since, his problems have only multiplied.

America's fourth-largest bank is in the grip of a recession that threatens to deliver steep loan losses. Near-zero interest rates are straining profit margins. And the bank is still in hot water with regulators, which imposed a growth cap as a result of the bank's four-year-old fake-account scandal and the plethora of problems it exposed.

Then there are the self-inflicted wounds. Mr. Scharf has drawn fire from employees and Washington lawmakers for filling top jobs with a largely white, largely male cadre of former colleagues -- and for saying there were few Black candidates with the required experience for those positions. The episode damaged morale within the bank, especially among Black staffers, current and former employees said.

Mr. Scharf had little room for error when he came to Wells Fargo last October from Bank of New York Mellon Corp., pledging to clean up a mess that started in its branches and spread to nearly every one of its businesses. Two CEOs had already resigned after failing to convince Washington regulators and lawmakers that the bank was on the mend.

As he heads into his second year on the job, Mr. Scharf finds himself in a position familiar to his predecessors: playing defense.

Mr. Scharf is "focused on resolving important regulatory issues created by past misconduct, putting the right leadership team in place, and building an organizational foundation for Wells Fargo's future success," a spokeswoman said in a statement. "He and his team did this while also dealing with the negative impacts of the Covid-19 pandemic and providing support for our customers and communities."

When he became CEO, Mr. Scharf, a onetime protege of JPMorgan Chase & Co. CEO James Dimon, acknowledged the mistakes of the past and swiftly attempted to remake the bank's insular culture. "We need to be more direct with each other," he said at his first employee town hall last fall.

He encouraged decisiveness. He mandated more rigorous performance reviews. In some corners of the bank, people call him "Chainsaw Charlie," according to people inside the bank.

Mr. Scharf's defenders said he is laying the groundwork for the company's rebound. Much of the progress, they said, is happening behind the scenes -- in the vast web of systems and **technology** that is meant to catch problems like the 2016 sales scandal.

He had some early wins. In February, the bank reached a $3 billion settlement to end civil and criminal investigations tied to the sales scandal that had dogged the bank for years. He testified before the House Financial Services Committee the following month and -- unlike his predecessors -- emerged largely unscathed. He raised minimum hourly pay in most of the bank's U.S. markets.

But 2020 has tested Mr. Scharf in unexpected ways.

The coronavirus recession threw Wells Fargo for a loop. The bank, whose revenue has been falling for a few years, reported its first loss since 2008 in the second quarter and slashed its dividend. The bank, like its peers, has set aside billions of dollars to cover bad loans. Its stock has lost more than half of its value since the beginning of 2020. Analysts polled by FactSet expect the bank to post a modest profit when it reports third-quarter results next week, but still lower than a year earlier.

Mr. Scharf has imposed steep cost cuts to help the bank weather the downturn. Layoffs, expected to ultimately number in the tens of thousands, have set employees on edge. Job cuts often happen on

Tuesdays, according to people familiar with the matter, and a new policy instituted during Mr. Scharf's tenure requires laid-off employees to leave immediately, instead of in 30 days.

Most recently, Mr. Scharf was criticized for comments he made about the lack of Black talent at the most senior levels of finance.

Mr. Scharf has brought in new leadership consisting largely of white men he previously worked with in other finance jobs, including at JPMorgan. The bank, meanwhile, has lost some of its highest-ranking Black female employees, the Charlotte Observer recently reported.

As of last year, Wells Fargo's executives and senior managers were 87% white and less than 3% Black, according to company data. In recent months, Mr. Scharf has hired three senior Black executives, two of whom serve on the bank's powerful operating committee.

In a June memo committing to diversify the company and its senior ranks, he asked that employees withhold judgment until after he had two years on the job to make progress.

"The unfortunate reality is that there is a very limited pool of Black talent to recruit from with this specific experience," he said, referring to the expertise needed to manage Wells Fargo's regulatory issues.

Many workers were upset by his comments at the time, particularly Black employees who were rising through the ranks. When the comments resurfaced in a Reuters story in September, Mr. Scharf was widely criticized. Staffers said they felt uncomfortable having to defend the bank to people outside it.

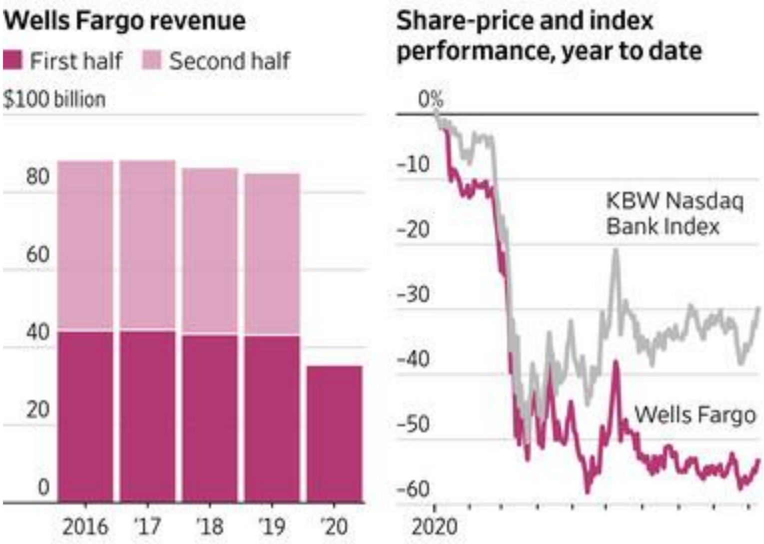
The company initially tweeted this response from Mr. Scharf: "I am sorry my comment has been misinterpreted." Later, in a letter to employees, he wrote: "I apologize for making an insensitive comment reflecting my own unconscious bias. There are many talented diverse individuals working at Wells Fargo and throughout the financial services industry and I never meant to imply otherwise."

On a Sept. 25 call arranged for a Black employee group, he took a moment to acknowledge some of the many "well-written" letters he had received from people around the bank in response to his comments, according to people familiar with the call. That further angered some employees, who likened it to when Black people are praised for being articulate.

A Wells Fargo spokeswoman said: "While some may have heard Charlie's comments differently, his intention was to convey that he was moved by the thoughtful perspectives and insights that he had received."

On the call, he also offered more context around his June comments.

"If you look at the full paragraph and the full intent, there was still plenty wrong with it, but I certainly didn't mean it the way it's being portrayed more broadly," he said, according to a recording reviewed by The Wall Street Journal. "Having said that, I do understand it, and I think it is important that we use it as an opportunity, and I've used it as an opportunity, to react to all the things we've heard."



Sources: the company (revenue); FactSet (performance)

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U.S. News: Corporate Diversity Targets Attract U.S. Scrutiny

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The U.S. Labor Department is investigating companies with federal contracts that have included specific numerical goals in their pledges to hire more diverse staff, arguing that these resemble illegal quotas and could potentially discriminate against white applicants and other groups, according to people familiar with the matter.

The department, which sent letters to Microsoft Corp. and Wells Fargo & Co. last week about their stated goals to hire more Black employees into management roles, is now looking more broadly and may contact other companies soon, those people said. The department has asked for documents relating to these initiatives going back to Jan. 1, 2020, and has given the companies until the end of this month to deliver a report.

A Labor Department spokesman wouldn't comment on other possible inquiries, but said the agency will send letters to other contractors if it feels an inquiry is needed to confirm that companies aren't using race- or sex-based hiring preferences or quotas.

"Companies must take affirmative action but must not discriminate in doing so," the spokesman said.

The scrutiny, along with a recent White House directive to limit racial-sensitivity training, has caused confusion for many businesses that have federal contracts because federal rules not only allow, but encourage, companies to set diverse hiring goals, said David Cohen, co-founder of the Institute for Workplace Equality, a trade association for federal contractors that counts Microsoft and Wells Fargo as members. The rules were put in place to help expand the pools of job candidates considered to more closely mirror the available workforce, he added.

Rules for federal contractors say they must identify the gaps between their workforces and available labor pools, then establish placement goals and plans for meeting them.

Microsoft said the Office of Federal Contract Compliance Programs, a division of the Labor Department, is questioning whether its June pledge to double the number of Black managers and leaders in its U.S. workforce by 2025 violates federal laws prohibiting discrimination based on race. Wells Fargo also pledged in June to double Black leaders over the next five years and said it would tie certain bonuses to achieving that goal. It too received a letter from the same agency reminding the bank that it may not discriminate on the basis of race to provide additional opportunities and that quotas are prohibited.

Both companies said they are confident their efforts comply with U.S. employment laws.

Some top contractors that announced recent diversity initiatives, including Boeing Co., said they haven't received similar letters from the OFCCP. Boeing pledged to increase its number of Black employees in the U.S. by 20% without giving a time frame.

Enforcing racial or other diversity quotas in hiring is illegal, but spelling out hiring goals is not, several labor law experts said.

Yet hiring goals can cross the line into quotas if they involve fixed numbers, said Ondray Harris, special counsel at Hunton Andrews Kurth LLP and former director of the OFCCP under President Trump.

Companies can draw the scrutiny of the federal government if they fall short in hiring Black employees, but also if they take the wrong approach to fixing the problem, Mr. Harris said. "You may need a scalpel and not a sledgehammer."

"Affirmative action is OK as long as you are taking qualified individuals and throwing them into the pool of candidates," he said. "Anything that looks like concrete numbers, set-asides or quotas is going to create a problem."

Jenny Yang, the chair of the Equal Employment Opportunity Commission under President Obama, said the rules regarding diverse hiring aren't as complicated as some people make them out to be.

"Goals are flexible," she said. "I worry the OFCCP is confusing matters by suggesting that simply having a goal as a federal contractor is somehow going to land you in hot water."

In July, it said the San Jose office of Mphasis Corp., a **technology** services firm, had discriminated against white applicants "in favor of Asian applicants, particularly Asian Indians, based upon race in its hiring practices" for computer systems analyst positions. The company agreed to pay $171,000 in lost wages and interest to some white applicants who weren't hired. The company denied OFCCP's findings and allegations, according to the agreement Mphasis signed with the agency.

The case, focusing on discrimination against white job candidates, was unusual in OFCCP investigations, said close observers of the agency. Mphasis didn't respond to a request to comment.

"OFCCP has entered into many conciliation agreements where whites or men were in the protected class," the Labor Department spokesman said. "OFCCP continues to strongly support affirmative action for minorities and women in employment."

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