Wells Fargo's Organizational Culture: Can You Bank on It?

O.C. Ferrell
James T. Pursell, Sr. Eminent Scholar in Ethics and Director of the Center for Ethical Organizational Cultures

Dr. Linda Ferrell
Professor and Chair of the Marketing Department

According to an expansive *New York Times* article published March 9, Wells Fargo continues to struggle to address concerns both inside and outside the organization related to ethical behavior and employee culture at one of the largest consumer-focused financial institutions in the United States. “Wells Fargo Says Its Culture Has Changed. Some Employees Disagree” cites employee claims that top executives speak in general platitudes about ethics while at the same time demanding adherence to sales practices and performance metrics that require employees to put professional achievement over ethical behavior. On March 12, Wells Fargo CEO, Tim Sloan faced a congressional hearing where the questions attempt to determine if the company is substantively different today than when it opened millions of fake accounts in 2016.

The scrutiny comes because of additional ‘undermanaged risks’ that exposed the company’s inappropriate conduct through the forcing of customers to buy unneeded auto insurance and charging improper mortgage fees – tied to the underpinnings of the original scandal in attempting to meet extremely aggressive sales goals. The most recent reports from within also stand in stark contrast to the bank’s new ‘This is Wells

Fargo" ad campaign and last year's "Re-established" marketing initiative, both of which were designed to demonstrate, according to CEO Tim Sloan, that "Our company's transformation continues." As Mr. Sloan testifies before a congressional committee about the bank's progress in transforming its culture, these new revelations could play an important role in his attempts to create an ethical corporate culture going forward.

Based on research we conducted and reported in the *Journal of Business Research* this year comparing the role of business ethics and social responsibility in building organizational culture and brand equity, Wells Fargo's dilemma is predictable, if unfortunate. Ethical conduct in business has a stronger impact on both employee and brand attitudes than image campaigns and positive social responsibility activities. This means that no amount of CSR initiatives can overwhelm negative news about unethical conduct. CSR may help communities, social causes, etc., but, customers whose credit scores were compromised experienced first hand pain from the Wells Fargo brand.

Our research showed that ethical business behavior and corporate social responsibility (CSR) are both important to consumers, but, in vastly different ways. Business ethics relates how the internal culture, based on ethics and compliance, created acceptable behavior. CSR initiatives and programs are based on establishing and managing relationships with a wide range of stakeholders critical to brand identity, including consumers, employees, investors, and suppliers. CSR activities are not related to operations and ethical decision making.

In the case of Wells Fargo, these two components of reputation and brand identity appear to be in two completely different camps. Wells conducts an expansive array of CSR activities focused primarily on philanthropy for communities. In 2018, for example, the company donated $444 million to 11,000 nonprofits that supported affordable housing, small business, education and sustainability and provides a report on "Living our Commitment" promising $1 million a day to nonprofits this year. This demonstrates an excellent commitment to CSR.

Our research has found that in most organizations, business ethics and compliance managers and those who carry out the social responsibility initiatives do not work together or interact in a strategic, planned manner. This seems to be the case at Wells Fargo. Community philanthropy is not a substitute for internal ethical conduct. It is important to note that in our research, consumers could differentiate activities that relate to business ethics and CSR. We found unethical conduct becomes the key driver of attitude toward the brand. Therefore, Wells Fargo's strong CSR performance will not be enough to change attitudes toward the brand.

An organizational culture is formed over a long period of time and becomes embedded in the way daily activities are performed. Wells Fargo's culture has evolved over the years as they are the compilation of many other banks and mortgage companies. Stating general platitudes about ethics is not effective if the way things are accomplished is by pushing or breaking the rules. Many employees did not even think about their behaviors from an ethics perspective or filtering who had the potential to be harmed if they occurred. They were simply doing what they were told, regardless of organizational ethics and compliance guidance. These employees were supported by coworkers and rewarded by managers for reaching sale targets. The focus was to gain as much of the customers banking and financial business as possible.

This type of ethical culture is hard to change without effective leadership. The company has long implemented a strategy of growing its leadership talent from within.

That appears to be changing as they attempt to improve their culture and conduct in part by bringing in leadership from Citigroup, Bank of America and Wachovia. Whether that will be enough to stem their continuing slide remains to be seen. The company needs strong transactional leadership with ethics training, management support, listening and monitoring mechanisms and the bottom-line filter that there is never a right reason to engage in misconduct. Rules and risk areas first must be understood and not compromised in order to achieve bottom line, or short-term sales goals.

In the long run, it has been found that the most ethical firms are also the most profitable. Does Wells Fargo embrace this market mantra? Tuesday's testimony and lawmakers' response provides a key indication to what's next for this 166-year old American brand. The jury is out on whether Sloan and his management team realize that his organization cannot simply "talk the talk" externally without "walking the walk" within. The question is not whether Wells Fargo is too big or needs government intervention, the question is does the company have the right leadership and management teams to implement effective risk management and rebuild an ethical organizational culture.