International Journal of Business Management and Commerce; Vol. 9 No. 1; January 2025
International Journal of Business Management and Commerce
Published by Center for Contemporary Research

Wells Fargo Scandal: A Clarion Call for Servant Leadership

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Abstract

This teaching case involves the chief actor, Wells Fargo, embarking upon fraudulent business practices to make sales goals to better their bottom line. Employees were in the crossfire of the leadership's decision to commit fraud. The leadership at Wells Fargo failed their customers, employees, and themselves. There exists a need for a transformative type of leadership in the broad business world, which is called Servant Leadership. College students majoring in business/management will be taught the characteristics of Servant Leadership with the possibility that these potential business leaders will avoid the pitfalls of being leaders in the world of business by practicing some of the principles of Servant Leadership.

Keywords: cross-selling, fraud, customers, employees, leadership, servant leadership

1. The Case Synopsis

In terms of banking and finance, Wells Fargo is a brand synonymous with the explosion of mergers and acquisitions circa the late 1990s through the late 2000s, particularly the acquisition of Wachovia during the Great Recession. During that era, Wells Fargo was considered a success story because of its ability to avoid the subprime crisis which embroiled several banks during the Great Recession e.g., Bear Stearns, Lehman Brothers, etc. However, the situation changed several years later in 2016.

Wells Fargo became enmeshed with a scandal of its own as bank employees were compelled to open fake bank accounts for customers at many branch locations throughout the US. Specifically, employees took extraordinary measures to attain and meet improbable sales objectives by committing the fraud of establishing banking and credit card accounts and performing transactions between such accounts not to mention making up email addresses as a needed component for online banking accounts (Cavico & Mujtaba, 2007). Wells Fargo embarked upon a practice called “cross-selling” as a means of generating revenue, but the harsh ramification of this practice is that customers were unaware that these accounts were created in their name thus foregoing the proper practices such as authorization and consents (Cavico & Mujtaba, 2007). Kelly (2016) adds that millions of accounts were created over a five-year period which would mean 2010 or 2011.

The fallout was swift as CEO John Stumpf was forced to resign in late 2016 and give back the money he earned during his time as CEO. Still, after retiring, Stumpf was able to receive his retirement benefits which exceeded over $130 million (Sweet, 2016). To add insult to injury, thousands of employees were fired, and many investigations and lawsuits were filed. Please see the following timeline below (Wilowski, 2023):

- September 2016: Wells Fargo acknowledged it had created 1.5 million fake deposit accounts and 623,000 fake credit card accounts between 2002 and 2016 in customers’ names without their knowledge and approval, motivated by unrealistic profit goals set by company leadership.
- October 2016: Facing mounting criticism, Wells Fargo CEO John Stumpf retired, surrendering $69 million in compensation through forfeiture and clawbacks.

- March 2017: After discovering illegal and discriminatory credit practices, including the creation of millions of fraudulent accounts, the OCC downgraded Wells Fargo’s rating under the Community Reinvestment Act (CRA) to "needs to improve" from "outstanding."
- April 2017: In its 2017 Sales Practices Investigation Report (SPIR), Wells Fargo's board identified "cultural, structural, and leadership issues" as the root causes of improper sales activity at the company and revealed that the bank's executives were aware of the issues and practices underpinning the fake accounts scandal as far back as 2002.
- July 2017**:** As many as 570,000 Wells Fargo customers were wrongly charged for auto insurance on car loans after the bank failed to verify whether those customers already had existing insurance. Thousands of customers have defaulted on their car loans.
- October 2017**:** Wells Fargo admitted wrongdoing after 110,000 clients were mistakenly fined for missing a deadline on mortgage payments, even though the bank was at fault for the delays.
- February 2018: In response to widespread mistreatment of customers and compliance breakdowns, the Federal Reserve ordered the lender to replace three directors and restricted its growth until it could see a meaningful improvement in governance and
- April 2018: Federal regulators at the CFPB and OCC examined Wells Fargo's auto loan insurance and mortgage lending practices and ordered the bank to pay $1 billion in damages.
- August 2018: The Justice Department levied a $2.1 billion fine on Wells Fargo for its actions during the subprime mortgage crisis, particularly its mortgage lending practices between 2005 and 2007.
- 2019: Timothy Sloan becomes the second in a line of CEOS to resign from Wells Fargo within the past couple of years as Charles Scharf takes over the reins of the firm. This results after a public admonishment from the OCC.
- January 2020: The Office of the Comptroller of the Currency (OCC) banned two senior executives at Wells Fargo, former CEO John Stumpf and ex-Head of Community Bank Carrie Tolstedt, from the banking industry. Stumpf and Tolstedt also incurred civil penalties of $17.5 million and $17 million, respectively.
- February 2020: Wells Fargo paid $3 billion to settle criminal and civil investigations by the Justice Department and Securities and Exchange Commission (SEC) into its aggressive sales practices between 2002 and 2016. About $500 million was eventually distributed to investors
- December 2022: Wells Fargo paid more than $2 billion to consumers and $1.7 billion in civil penalties after the Consumer Financial Protection Bureau (CFPB) found mismanagement—including illegal fees and interest charges—in several of its biggest product lines, such as auto loans, mortgages, and deposit accounts.

2. Teaching Case

In the opening of this case, the authors use the word “compelled” which implies that the front-line workers for Wells Fargo were coerced by their management throughout the firm. Based upon this assertion, one could argue that management levels throughout the Wells Fargo saga lacked or failed to display a certain level or type of leadership to avoid the pitfall of such a fiasco. Through the experiences of human beings, it is assumed that individuals learn from their mistakes or the mistakes of others. So, the hope is that future business leaders will learn from these examples of management/business failures. As we have seen over the past several decades, there have been several leadership blunders within the space of big business and/or the US government. Some that come to mind are as follows: the 1982 Tylenol Cyanide scare, the Space Shuttle Disaster of 1986 (indicative of groupthink), and of course, Enron. Blanchard and Broadwell (2018) contend the need for another type of leadership not bound by power and control but instead for the sake of the many, which is called being a servant leader. As a result, a clarion call exists for a time such as this within the broad business world and in a global sense for Servant Leadership.

This teaching case aims to introduce fundamental concepts of Servant Leadership to prospective Business/Management majors. The rationale is that some if not most business failures result from a lack of leadership from top management which permeates throughout an organization. The hope is that business majors at universities will learn and emulate some of the principles of Servant Leadership as they graduate and move into the working world. Seshan et al., (2021) advocate for the use of case studies to assist teachers in part to foster skills such as critical thinking for their undergraduate students. A business case study revolving around Servant Leadership will help prospective business leaders make more informed and forward decisions rather than decisions based upon short-term gain at all costs.

Servant Leadership was coined by Robert K. Greenleaf, a renowned corporate executive with AT&T (Spears, 2018). According to Greenleaf, the servant leader is servant first. It begins with the natural feeling that one wants to serve. Then, conscious choice brings one to aspire to lead. The best

> test is: do those served grow as persons: do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society; will they benefit, or, at least, not be further deprived? (Greenleaf, 1970)

One can infer from the definition by Greenleaf (1970) that the lives of others will improve because of Servant Leadership which could benefit undergraduate college students to learn about Servant Leadership.

For this case study, students will be introduced to what Spears (2018) refers to as ten characteristics of Servant Leader which were synthesized from Greenleaf's previous works (Greenleaf, 1970, 1977). The characteristics are as follows: listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people, and building community (Spears, 2018). The subject matter of this content would best be served within a standard undergraduate leadership course at the discretion of the school business administration department. However, this case could be taught in a Business Ethics, Accounting, and Strategic Management course as a one or two-week course set aside dedicated to teaching exemplary leadership techniques and/or theory using the Wells Fargo case. Please see the case directions in the following points:

1. In one or two class sessions, students will be given a lecture based on the ten characteristics of Servant Leadership. Professors may use the work of Greenleaf as well as other scholars of Servant Leadership from open-source information. This is the discretion of each professor.
2. Then, students will be assigned to teams of three and each student within the team will choose at least three of the ten characteristics of Servant Leadership.
3. Students within the team must not choose the same characteristics.
4. Students will make a constructive inquiry using their assigned Servant Leadership characteristics to evaluate the leadership decisions centered on the Wells Fargo Scandal.
5. Specifically, students will explore what might have happened if, for example, the leadership of Wells Fargo had incorporated the characteristic of foresight as part of their decision-making processes which led to the scandal.
6. Students will have the option of drafting a five-to-seven-page paper, a PowerPoint with voice-over with at least ten slides, or a digital poster which is highly recommended.
7. Students will present their projects at the end of the teaching block of Servant Leadership if time permits. If not, students will be present at the end of the semester.

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