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The Wells Fargo Accounting Scandal

Tuesday/ Thursday 2:30-3:45pm

Bus-L375 Professor Lopez

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Key Facts
In 2013, an investigation by the L.A times in Wells Fargo found that the employees of the bank were opening multiple unconsented accounts in order to meet their sales quota. This "investigation eventually led to the Los Angeles City Attorney’s Office to file a lawsuit against Wells for its sales practices, which in turn caught the attention of federal authorities, most notably the Consumer Financial Protection Bureau and the Office of the Comptroller of the Currency". ¹

On September 8, 2016, the Consumer Financial Protection Bureau (CFPB), the Los Angeles City Attorney, and the Office of the Comptroller of the Currency (OCC) alleged that Wells Fargo opened or applied more than two million bank accounts and credit cards without customers’ knowledge or permission between May 2011 and July 2015. For years, Wells Fargo has been known in banking circles as having an extremely aggressive sales culture. The bank’s management likes to say it does not have branches, it has “stores”. Up until 2016, the management highlighted their cross-sell ratio which referred to the number of accounts or other services a customer has with the bank.

Several years ago Wells Fargo decided that it was not cross-selling enough. To combat this, it developed a strategy that involved the employees telling the customers about other products and services offered by the bank and provided incentives to employees who succeeded at cross-selling. The incentive program, “Gr-eight initiative”, was an internal initiative to sell eight financial products per customer. When asking former Wells Fargo CEO John Stumpf why the employee target for the number of accounts per customer was eight, his reasoning was "eight rhymes with great".

A former employee of the bank who worked at its headquarters recalled she was expected to sell a wide range of financial products (checking and savings accounts, credit cards etc.). The employees were expected to sell at least eight products a day and this minimum would go up as high as twenty products per day during sales push periods. If the employees did not meet their sales goal, they would be called into a “coaching session” which was compared to “being called to the principal’s office”. Then the employees were often threatened that they would soon be fired from their jobs if they did not sell more products.² To meet the sales targets and keep their jobs, employees started creating accounts in names of existing customers to meet their quota and stay in the good books of the management. Some employees even used the customer's personal information to order cards directly to the bank branch so that the customer would not know about the additional product purchased in their name.

Early problems with Wells Fargo’s sales-focused culture dates back to at least 2002. The board found a branch in Colorado was issuing debit cards to customers without their consent, and branch management encouraged the behavior.³ Wells Fargo investigated the incident and several employees at the branch were fired. However the problems did not stop, as upper management continued to put pressure on employees to meet their sales number for the day.

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¹ 6 Things About Wells Fargo Scandal
² Wells Fargo workers: I called the ethics line and was fired
³ Colorado Branch Played Big Role In The Wells Fargo Sales Scandal
It has been established that the management was more focused on the employees meeting their targets for the day and did not care how the employees achieved this. As a matter of fact, it has been alleged that Pam Conboy the Regional President for Wells Fargo’s Arizona business encouraged employees to duplicate accounts. On top of that Carrie Tolstedt, the head of Wells Fargo’s entire banking division, often portrayed Conboy as a successful model.4

Some have even described the bank as being too decentralized. Meaning, different department heads were given a lot authority with little oversight from the head office. This made "the Community Bank’s senior leaders distort[ing] the sales model and performance management system, fostering an atmosphere that prompted low-quality sales and improper and unethical behavior."5 Further an internal investigation report recounts the fact that "even when challenged by their regional leaders, the senior leadership of the Community Bank failed to appreciate or accept that their sales goals were too high and becoming increasingly untenable".6

One former employee, Bill Bado, tried utilizing the ethics hotline and contacting human resources with issues about the Gr-eight initiative but was then fired eight days later for being tardy. Another former employee said that the bank had a retaliation method in place against those who called the ethics hotline or tried to fight the pressure of creating phony accounts. This comprised of observing an employee and finding a minor fault to use as a basis of termination. An anonymous former human resources official at the bank told CNNMoney that “If this person was supposed to be at the branch at 8:30 a.m. and they showed up at 8:32 a.m., they would fire them”.7

John Stumpf's testimony in front of the Senate Banking Committee was that a board committee had become aware of the fraud at a high level in 2011. The board committee did try some solutions but all their efforts were in vain. Stumpf told the senate committee that he got the wind of the fraud after two years to futile solutions implemented by the committee. Even after discovering the fraud, Stumpf did not do anything major till two years later in 2015 when he brought in consultants to estimate the full impact. One major cause of the delay was the leadership team's refusal to accept that the there was a systematic sales fraud happening in their company. A lot of executive team members who had been with company for years believed that the frauds were minor isolated incidents and brushed it off initially as work of a few rogue employees rather than seeing it a sign trouble cause due to the incentives program.8

**Identify the Moral Problem**
The initial step in conducting the Hosmer 6 is identifying the moral issue. This pertains to asking who has been harmed and whether the party has been harmed in a significant way. When identifying a moral issue, harm has to be done to a vulnerable party who has been unable to protect themselves particularly well within a given situation.9

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4 6 Things About Wells Fargo Scandal
5 Levin
6 Sales Practices Investigation Report
7 Wells Fargo workers: I called the ethics line and was fired
8 Ochs
9 See Fort page 65-66
In terms of Wells Fargo, employees were a vulnerable party subject to following a morally compromising program, the Gr-eight initiative, while consumers were unaware of the actions being done by these employees. This employee incentive program is what caused the downfall of the financial giant, and led to the creation of two million fake accounts. Around one percent of Wells Fargo’s employees were fired for participating and reported feeling pressured to meet quotas and falsify information.10

Under United States corporate law, limited liability corporations (LLC) separate the individual members of a company from being targeted financially for the debts or liabilities the company is involved in at any time. Since media cannot question a "company", the CEO is usually liable to responding to the actions of his employees. With this information in mind, is it ethical to hold a CEO accountable for the actions of less than 1% of its workforce when the company (CEO) emphasized a morally compromising incentive problem?11,12

**Why is this an ethical dilemma?**

The moral question proposed may not seem like an issue at face value. But, right now in America the CEO of company is usually targeted and is either asked or forced to step down and take a large responsibility in the actions committed by the company. Is this right? The Wells Fargo CEO, John Stumpf, had to make the decision on whether to step down or not. Should this be the norm? Should people think the CEO should take all the blame and backlash while low-level employees hold a small responsibility in the issue? This paper will help us figure out if Stumpf made the right decision on taking a large responsibility based on ethical grounds.

**Additional Facts**

Additional facts consist of facts that would be helpful to the key decision maker to know regarding the aftermath of the event. These are facts that would have been helpful to know before an issue occurred and were not known leading up to the moral decision. They must also be relevant to the issue at hand.13

**SEC Probe**

In September once the story broke, three senators asked the SEC to investigate whether the company violated federal law by failing to disclose in filings that there were problems regarding unauthorized accounts. They also wanted the SEC to investigate if the company violated whistleblower protection laws, alleging that employees had been fired following complaints of unethical activity. In late September of 2016, Wells Fargo announced that the SEC was probing and although the regulatory entity failed to comment, many believed that the regulators were

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10 Cowley
11 The moral problem posed is under the notion and understanding that the incentive program compromised employee’s moral integrity as found within accounts and research about the program outlined in Key Facts.
12 Not included in the paper is how we came to the conclusion of the act to create fake accounts as unethical. Slightly curious? Read "The Hazards of Workplace Anxiety" (found in Works Cited) which links workplace anxiety to unethical behavior.
13 See Fort page 66
-looking into disclosures and sales practices. This announcement upped litigation losses from $1 to $1.7 billion.\textsuperscript{14}

**OSHA Settlement**

OSHA’s Whistleblower Protection Program enforces the provisions of the multiple whistleblower protection statutes and is another safeguard for employees. In early April of 2017, Wells Fargo settled a dispute regarding the protection of whistleblowers. An OSHA investigation concluded that an employee in 2010 had been let go after reporting to supervisors and the bank’s ethics hotline that he had suspected fraudulent activity.\textsuperscript{15} Wells Fargo was ordered to pay $5.4 million to the employee and rehire him. This amount was determined to cover back pay, compensatory damages, and legal fees. This was the largest amount ever awarded through OSHA’s whistleblower protection program. Although it is unclear if the fraudulent activity reported was linked to the scandal, the employee was fired during a time period when the scandal was taking place. Knowing this information, were employees placed into an environment that perpetuated a culture of fraud?

**The Senate Hearing**

The Senate Banking Committee hosted an open session questioning Stumpf on September 20\textsuperscript{th} of 2016 regarding the creation of two million fake accounts. The CEO was grilled by a number of senators and had a notable questioning with Senator Elizabeth Warren.\textsuperscript{16} Warren asked questions such as "Have any of the senior executives who led the banking/compliance division been let go?" and "Have you returned a nickel of money you earned while this 'scam' was going on?" To both of these questions, Stumpf responded "no". When questioned on cross-selling, Stumpf stated that "cross-selling is short for deepening relationships" to which Warren responded with transcripts of Stumpf pitching to investors the idea of investing in Wells Fargo due to their success in cross-selling. Multiple times, Stumpf mentioned that some of the questions asked were at the discretion of the Board of Directors. This can be looped back to our question of accountability. Who is to blame for the downfall, the employees, CEO, or Board of Directors? Can we point the blame at just one individual?

**The Downfall**

Our moral issue poses the question of who should be held accountable for the employee’s actions. Following the unearthing of the scandal, 5300 Wells Fargo employees were let go who had been linked to shady activity. This included regional managers and a large number of tellers. No senior staff had been let go. It appears that those who had done the deed of creating false accounts were the target of repercussions, not those who set the unrealistic quota expectations in the first place.

**Available Alternatives**

Since ethical issues can extend further than an either-or choice, the Hosmer 6 includes *Available Alternatives*. If our moral problem was a clear cut answer, it would not be hard to argue whether

\begin{itemize}
\item \textsuperscript{14} Keller
\item \textsuperscript{15} U.S Department of Labor
\item \textsuperscript{16} What follows is an explanation that is very brief. Warren questions Stumpf for a total of nearly eighteen minutes which you can find at this link: https://www.youtube.com/watch?v=xJhkX74D10M
\end{itemize}
or not the issue is ethical. Hence, this is why our question was not “Was it ethical for employees to create fake accounts without customer permission?” This would be a straw man argument and people could say, “No, this was not ethical”. This section will outline different alternatives that Wells Fargo could have enacted in light of their dilemma.  

**Alternative 1: Recreating Gr-eight to minimize pay out fines**
The Consumer Financial Protection Bureau fined Wells Fargo $185 million for the creation of over 2 million fake accounts. By law, Wells Fargo, a LLC, knew they would have to pay for these such fees once news about these accounts were made public. Employees were not responsible for paying out of their pocket to these customers. With this in mind, once the company found a growing number of fake accounts, John Stumpf could have immediately stopped, or at least put the Gr-eight incentive program on hold. This would allow top management to discover the issue with the program and reconstruct it. Once this was in place, management could try to work a better way to pay back customers. Note that this alternative would still require fines to still be paid by Wells Fargo and Stumpf still taking some responsibility, but by taking responsibility and initiative sooner, it could help lower the amount fined.

**Alternative 2: CEO engaged in the Human Resources and Ethics hotline**
A CEO has multiple responsibilities and therefore has department managers who report to him or take care of issues that are going on within a company. As a result of what happened at Wells Fargo, Stumpf had the option to become more engaged in the Human Resources department and Ethics Hotline. Outlined in the Key Facts section, employees did not feel safe reporting to either of these sources. These resources were not carrying out their intended purpose and if a CEO also had the responsibility to know the big issues being reported, the damage to Wells Fargo and Stumpf's reputation could have been reduced. In class we participated in a mock work simulation where the HR department was also no help because the HR employee perpetuated an unethical culture. The simulation dealt with race, but the notion that the people who are in place to help you, are not, remains the same. If this system of the CEO checking in with HR or the ethics hotline was strictly enforced, this situation could have been reduced, and in the future the CEO's of Wells Fargo may be more trusted. This would give the CEO more responsibility, and therefore people find him more accountable for the fake accounts.

**Alternative 3: Push the blame on someone else**
Stumpf could have decided to stay with company and when the news hit, push the blame on to all of the low level and middle managers. Now, he would have to admit to knowing about the accounts but he could try to manipulate the public into believing it really started with the low and middle-level employees. Then once it got to him, it would have taken extensive planning to fix the escalated mess and that is why no solid solution was found in time. For example, in class, we watched a movie called "Eye in the Sky". In the movie, Lieutenant General Frank Benson continually requested permission from the Prime Minister to carry out the execution plan that Colonel Katherine Powell wanted so that she could give permission to Steve Watts, the pilot, to

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17 See Fort page 67  
18 This is just the amount Wells Fargo had to repay customers, the overall fees totaled over $200 million (Staley)  
19 Eye in the Sky was a movie watched in class and was released in 2016
shoot the Hell Fire. It encompassed every decision maker referring up to get permission to know that he or she was in the clear before letting the person ranked below them know of the next step of the plan. No one wanted to make the executive decision and take blame for the repercussions. This exemplifies this alternative in that Stumpf could try to push the blame and responsibility on someone else.

**Alternative 4: Stumpf could have left once he heard about the fake accounts**

This alternative would provide a scapegoat for Stumpf. If he made the decision to leave the company years before everything came to light in the news and a new CEO took over, Stumpf still might have to respond but he could claim he left because the Gr-eight initiative was abused and turn the blame to the new CEO. He would have to utilize this alternative before it could be proven that he was aware of the fake accounts long enough and did nothing. This is one of the safer options because he is leaving when things start to get bad and before he can take on all the blame. He would be able to leave and leave the mess for the new CEO.

**Alternative 5: Take full responsibility**

This is the plain and simple alternative. Simply put, Stumpf could have made the decision to completely own up for everything. The CEO could recognize that he is the CEO and part of his job consists of the responsibility to watch over the company and know what is going. This alternative might make him look more noble than continuing to deny the actions and his responsibility in the role.

**Identify the Personal Impacts**

Continuing on with the Hosmer 6, the next step is finding the personal impacts on the decision maker. This section does not involve the consequences of those affected by the decision. In our case this would involve the personal impacts on CEO John Stumpf. The following tests allow us to look at the impacts on Stumpf's decision in three different angles and how they reflect on him. Being a decision maker such as a CEO means making decisions that impact various stakeholders, employees, and how the press portrays the company. This is why these tests help us look at the internal decisions Stumpf had to debate in his mind on who and how his decisions impact people.  

**Newspaper Approach**

The Newspaper Approach is a test within identifying personal impacts and addresses the question of whether the decision maker would be comfortable with having their proposed action being reported in a national newspaper. Picture Stumpf waking up, making a cup of coffee, and then going to collect his newspaper. As he sits down to read it, the headline on the front page reads "Wells Fargo CEO Stumpf's Program Leads to the Creation of 2 Million Fake Accounts. Thousands Affected". This headline is now on newsstands around the nation, on front porches of homes, and being sold at thousands of street corners. This actually did happen to Stumpf after the scandal broke, but this approach wonders if the CEO would have done more to monitor accounts if he had thought of a headline like this.

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20 See Fort page 68  
21 See Fort page 69
**Loved One Test**
The Loved One test is a variation of the Newspaper Approach. Our ethics book describes this test with an example from the book *World on Fire* by Yale Law Professor Amy Chua.\(^{22}\) One of the executives interviewed in Professor Chua's book reported that he would not be able to tell his family all that went on during his day at work. If this is the case, there maybe something wrong with your job because you should be able to tell the ones you love what goes on in your life.

Here's another picture this moment: you come home with a new diamond necklace with matching earrings and present the royal objects to your wife. She, obviously overjoyed, finally comes down from her high and asks where the money for these ornate decorations came from. In this situation, Stumpf would have to internally decide if he could stomach telling his wife the extra $200 million came from "fake" money because he decided that he would profit from the creation of two million fake credit accounts.\(^{23}\)

**Tombstone Test**
The third test is the Tombstone Test. This involves asking yourself, "How do I want to be remembered as?" What kind of legacy have you left behind? What will people say about you once you cannot say anything for yourself?

With the decision Stumpf was left to make he did not really have a choice on whether he could leave a positive legacy. Either way at the point of deciding whether he should take full accountability or not, he would be remembered as the CEO who did make a strong effort to change the Gr-eight initiative. In the end, his tombstone might read something along the lines of "Here lies the man who let profits tarnish his legacy". Now if he had made a decision to leave earlier, his tombstone might be different but with the question at hand, he stuck with the company and was held accountable.

**Moral Frameworks**

**Stakeholder Theory**
Stakeholder Theory's origin is credited to Edward Freeman, a professor at Darden School of Business at the University of Virginia. This theory requires to treat all stakeholders as an end rather than as a means to an end. Stakeholders are not just shareholders but can also be employees, customers, suppliers, governments, environment or any vulnerable party which may be affected by the decisions or operations of the firm. William Fredrick of Katz School of Business proposed a formula to use the stakeholder approach which is EBB (ethical business behavior) = R\(_k\) + J\(_r\) + U. This is used to define ethical business behavior as a function of Kantian rights (R\(_k\)), Rawlsian justice (J\(_r\)) and utilitarianism (U). The first step in applying stakeholder theory is to determine who the stakeholders are in the situation. In this case the stakeholders are Wells Fargo's shareholders, executives, employees, customers, board of directors and the CEO.\(^{24}\)

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\(^{22}\) See Fort page 69

\(^{23}\) This $200 million figure is comprised of cash from stocks and stock options, and if fired, Stumpf would only have to return a portion of this money (Wells Fargo dumps toxic 'cross-selling' metric).

\(^{24}\) See Fort page 114
Individual Rights
Rights are the first element of the stakeholder theory. Professor Patricia Werhane of DePaul University created a framework comprising of two different types of rights to prevent using the rights theory indiscriminately. An example of using rights theory indiscriminately mentioned in the book is if an alum drives a long way to a football game and they believe that gives them the right to see their team win.25 These are basic and nonbasic rights. Whenever there is a conflict amongst the rights, basic rights supersede nonbasic rights.26

Basic Rights
Werhane defines basic rights as "something without which life would be intolerable".27 Some of the basic rights are food, water, shelter and freedom from torture. In Wells Fargo's situation basic rights have not been harmed as no one was deprived of food, water, shelter, or freedom due to creation of phony accounts and top management's delay in taking action. Therefore, the decision of Stumpf stepping down as the CEO of Wells Fargo would not affect the basic rights of the stakeholders.

Nonbasic Rights
Nonbasic rights are rights which should be protected but are also something without which an individual's health would not be very worse off. These are right to property, right to work, corporate income, etc. In this situation it can be said that the CEO's nonbasic right to a job was violated because he resigned even though he clearly did not feel doing so was the answer. Throughout the Senate Committee hearings it can be seen that Stumpf claims he had no wrongdoing as he did not give any directive telling the employees to create phony accounts. Also, it can be clearly established that there was no way the CEO wanted to give up $41 million of his salary and be held responsible for the actions of around one percent of his employees.

It can similarly be argued that the decisions of the CEO with the incentive program violated the employee's nonbasic right to work. Upon learning that the bank was not cross-selling enough, the CEO came up with the "gr-eight" incentive program which required the employees to encourage a customer to have on average eight of the bank's financial products. After Jon Stumpf resigned, almost a thousand employees who were fired during the period were rehired so there was a reversal of the damage to the rights of some of the employees.28

Justice
Justice is the second aspect of stakeholder theory that we will analyze. Equality and distributive justice are two parts that are focused on when looking at the justice element of the decision. These two dimensions are used because people are not born equal. People are born with different physical and mental advantages that should be attributed to the decision. Are we going to protect

25 See Fort page 115
26 See Fort page 116
27 See Fort page 115
28 1000 employees rehired
the vulnerable? And if so, do the vulnerable believe they are at worse off conditions? Or, does this party believe they are actually better off than others because of their social construct? We cannot just project our own thoughts and biases to situations.  

**Equality**

This subsection of justice is used to look at whether the decision reflects that "equal people with equal talents and equal opportunities ought to be paid and treated equally." Bringing this to our question, if the decision only affected a small party, would it meet the equality aspect? The lower level employees who had to carry out the initiative were the 5300 employees who were fired while the people above them were not affected as heavily. So, the people with lesser jobs and lower pay were treated with termination while the others kept their jobs. The upper management was able to afford PR firms while the lower level employees did not stand a strong chance to fight against termination. These lower level employees therefore did not have equal opportunities because they did not receive the same job security as high level employees.

This idea of equal talents and opportunities relates to a recent class discussion of Jack Abramoff, a former American lobbyist who was found guilty of tax evasion and mail fraud. He served three years in prison. In class, we came to the conclusion that the video we watched painted Abramoff in a more positive light. A question was brought to our attention: what if he was a protected class? What if it was drugs? Some students voiced their opinion that he would not be painted in the "good" light that he is now if the answers to those questions were opposite of what he was. He performed the same crime of tax evasion and held the same job as other citizens and was treated with a few years in prison. Now we cannot say for certain he was granted this sentence based on privilege, but it helps provide us with our point that this is a possibility. His wealth and power helped him as Stumpf's wealth and power could help him.

Looking at equality, people should be held accountable for their proportional actions involved in the scandal. This would be hard to determine because the lower level employees carried out the initiative but people above them "forced" them to do this, otherwise the employees would be fired for speaking out. Stumpf could walk out with close to the $200 million that he profited from shareholders for the fake work that his employees pursued. These employees were fired and did not receive the same compensation that Stumpf did. Stumpf is now, still, well enough off for being treated differently than the employees who were fired. Yes, this dimension of equality says equal work and since the CEO and lower level employees have unequal work, we have to look at it as if Stumpf was treated equally for his actions as the employees were treated for their actions.

**Distributive Justice**

Distributive justice was articulated by the American philosopher, John Rawls. He said that people wanted to be treated fairly, and while the concept of fairness is fairly subjective as it varies from individual to individual. Rawls describes a decision is in line with distributive justice if it does not make even the most vulnerable party worse off than the non-vulnerable party. While the company did fire over 5300 employees, these were mostly low-level employees.

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29 See Fort page 120  
30 See Fort page 117  
31 See Fort page 117
who made around $12 per hour and carried out the managerial orders. Further, the Wells Fargo stock price rose by $30 dollars during the time frame of the fraud as the bank marketed itself on its high cross-sell rate and Stumpf gained $200 million in the same timeframe. Therefore, Stumpf stepping down as the CEO could contribute to distributive justice as he would hold himself accountable for his action of putting an unachievable incentive plan into place in the first place while his employees were fired just trying to achieve it.

Donaldson and Dunfee

Tom Donaldson and Tom Dunfee developed an "integrative social contracts theory of business ethics". This approach tries to navigate a way to be respectful of cultural differences by allowing individuals to make decisions that are culturally appropriate, but also hold all societies to a normative standard. For instance, Professor Fort's book touches on the fact that it might be culturally normal for children in African countries dominated by warlords to blow off the arms of another individual without a second thought, but that does not follow a societal normative standard. We cannot say it is okay to blow one another's arms off just because it is a norm in another country. Although a dramatic example, it helps to make sense of this approach. In correlation with our ethical issue, companies are free to do what they want (within the law of course), set up a business how they want, and execute their own business strategy as they please. This is the "American dream". They are also responsible for the actions of how they hold their employees accountable. While society expects that these businesses will remain truthful and honest in their operations, sometimes that is not the case. Donaldson and Dunfee would likely think that the CEO should be held accountable, because that is what the norm is within the United States. How a CEO conducts himself/herself and the messages they send trickle down through the entire company.

Social contracts

Social contracts rely on the ideal of norms. These types of contracts are not written, but instead are intuitive and rely on the fact that people live together in society in accordance with moral and political rules of behavior. We all govern ourselves by some sort of standard, and a lot of the times these standards are just the ways that we live our daily lives. Some people believe that if we live according to a social contract, we can live morally by our own choice and not because a divine being requires it. Social contracts are contagious in a way. Take for example a video from a class discussion when you place actors in an elevator and have them standing backwards, facing the wall. Most of us know that when you get into an elevator it is normal to stand facing the doors. We have all agreed to that. Although, when you have actors that do something like this, it turns out that people will soon follow suit! You have now created a social contract with one another to stand in an elevator facing the wall, not the doors.

Now, within banks you have social contracts to act in the best interest of your customers and to sell as many accounts as you can at the same time. This is likely highlighted in your employment contract as well. At Wells Fargo, a social contract had been created of opening fake accounts. It is nearly impossible for over two million fake accounts to be created without the help of others in

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32 See Fort page 118
33 Don't believe us, watch this video! https://www.youtube.com/watch?v=BgRoiTWkBHU
learning how to do so, so this type of culture had been created. Managers were enforcing this contract by placing employment contingent on sales goals being met, and signing off on the new accounts that had been created using a forged signature. Social contracts can obviously be good, or bad. All in all though, the affect how we conduct ourselves daily.

**Cultural Norms**

Cultural norms are exactly what they sound like. Normative behaviors from culture to culture. For example, it is normal in Japanese culture to bring a gift when meeting someone for the first time no matter who it may be, but you likely would not find this practice in the United States. When applying this ideal to our case, it is deemed as normal for the men/women on Wall Street to conduct themselves in such a way that could be seen a shady, but still legal. To some people, the idea of Wall Street has a negative connotation and the people that reside in the Wall Street bubble can be viewed as partly responsible for the financial crisis of 2008. If it had not been for the faulty AAA ratings on mortgages and pressure from investors to give such ratings, the downfall might not have been as severe.

Additionally, CEO's are typically held accountable for the actions of those within their company, even if they themselves had no wrongdoing. Stumpf was responsible for the creation of the employee incentive program that caused the fake accounts, but he did not tell his employees to act in such a way. Although this could be deemed as unfair, society looks to those in power to solve problems and be held responsible when those who work under them do not live up to expectations. In class we had discussed the fact that Google had pulled out of China because their content had been censored. A majority of the class felt that it was normal to have Google go into China and thought Chinese citizens would want to have access to more information, but it did not boil down to just that. When the Chinese students became vocal, we learned that some of the students felt it was not as appreciated as we thought it would be. They asked us to think from their perspective as if a Chinese internet company came into the United States and wanted to take over the internet. Would we be okay with that? Likely not. Sometimes you have to put yourself in the other individual’s shoes, and that is what Donaldson and Dunfee wanted.

**Hypernorms**

Hypernorms fall back to the idea that it is not ethical or viewed as acceptable for the children in African countries to blow off limbs. Hypernorms are at the root of what is ethical for humanity and how we treat one another. Do others looking from the outside think it is acceptable for a CEO to be held accountable for 1% of their workforce? For example, would an individual raised in a collectivist culture such as China or Japan feel it is right to hold the CEO accountable? Likely not since this type of culture focuses on the group rather than the individual. They would likely feel the entire group should take on the blame. Although we cannot answer this question with complete certainty, it can be likely be argued that those around the world hold those in charge to a high standard, and when things go wrong look to leadership first.

**Utilitarianism**

A utilitarian view means prioritizing the needs of the greater good over a single individual. In a single sentence, it can be summed down to doing the most good for the most individuals. In our

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34 See Fort page 119
case, it can be argued that a utilitarian focal point was not used. As mentioned before, Stumpf held a total of 6.75 million shares that allowed him to make a personal gain of $200 million. On the other hand, his employees who were responsible for the cross-selling that brought about these gains were making around $12 per hour. A select few reaped the benefits, and when the scandal broke regional managers and employees got the boot, and thousands of customers were affected. The masses were the ones who had to deal with the consequences, while few were able to escape with their salaries intact.35

We could argue that Stumpf would have done the most good by stepping down. Many had called on him to resign and it is normal in the United States to hold the CEO accountable for employees’ actions, no matter what the size of the company might be. Stumpf would be held accountable for what happened to thousands of customers. This would reassure the customers that something had been done in response to the scandal. In this case, he would be doing the most good for the most individuals.

**Real Trust**

Our book mentions that real trust is about "building social capital, reputation and good will through ethical business behavior".36 It is about sticking to your word and acting on your ethics even in the most difficult situations. It is about " Garnering the confidence of the stakeholders because you keep your word and tell the truth".

Stumpf violated real trust before and during the scandal. Though it can be argued that the CEO’s incentive program did not tell employees to create phony accounts, the program was based on aggressive sales strategy which had already been proven to compromise the employee’s ethics. In one of the Colorado branches, eight years prior to the Gr-eight incentive program being launched, customers were issued debit cards without their consent so that employees could show that they met their sales quota. Further, Stumpf knew about the fraud happening in 2013 and did nothing substantial until 2015 to curb it. He was not able to convince his executive team that it was their system which was flawed and the frauds were not isolated incidents caused by some bad apples.37 Not only did it affect the employees, but also those customers who were wrongfully charged the fees for accounts they didn’t even open in the first place.

While the bank claimed to have a system in place to protect the whistleblowers and an ethics hotline, it was not enough as employees who refused to indulge into fraudulent practices and tried to raise a concern about them were fired on retaliation soon after they reported the incidents.

Stumpf being held accountable and stepping down as the CEO would be an example of real trust. This would mean he stuck to his word and ultimately took responsibility for the domino effect of his decision even though he initially brushed this off.

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35 See Fort page 120  
36 See Fort page 204  
37 Ochs
Shareholder Theory
Another theory a part of the Hosmer 6 is the shareholder theory. The previous section was about stakeholders and the various parties involved, this section focuses on the shareholders involved in the decision. Companies have a duty to carry out lawful directives of the shareholders.38 Companies, non-and for-profit, need money to stay afloat and need to keep shareholders happy. We will look at maximizing profits, economic and non-economic directives, and future perspectives. It may be key to note that shareholder theory varies depending on how the company is set up, as in large corporations to family businesses to sole proprietorships. It is important to know who the shareholder are and the power they have over the decisions the company makes.

Maximize Profitability
One of the lawful directives that managers have for shareholders is to maximize profitability. In the end, shareholders want to invest in a company that is profitable and has promising returns. By creating the Gr-eight initiative, Stumpf was trying to increase profits and help raise the stocks for shareholders. The bank wanted to let their shareholders know that they averaged 6.1 products per household which was higher than the industry average.39 Legally, the initiative was lawful and did not tell the employees to create phony accounts. Wells Fargo did attempt to help shareholders with increasing profits, the execution of the plan was the issue.

Value
As mentioned above, during the whole scandal, Wells Fargo did help shareholders with profits, but more than that affected them. Our book mentions that stockholders in publicly traded companies can tell the company if the profits are not good enough, we are selling.40 The same applies for Wells Fargo with holding the CEO accountable. The shareholders might have found the CEO and company trustworthy and well worth the investment with the incentive program. Once the news broke, shareholders might have figured if Stumpf stays, the value of the company will decrease versus if he leaves and a new CEO replaces him. This is something Stumpf has to look at when making his decision on whether he is accountable or not. Even if he stayed and kept his job, shareholders may threaten to pull out until he leaves.

Profit Dimensions
While Wells Fargo was doing well with their shareholders creating fake accounts and making profits, how sustainable are these profits? Stumpf could have looked at this and thought are these profits going to continue in the long-term? Will we be able to hide these fake accounts long enough? It might have been a snowball effect issue meaning at first it might seem that these fake accounts can only last a short time and then employees will stop making them. Then, as Wells Fargo was able to keep them secret and continue to make profits, a few more fake accounts would not hurt, and then a few thousand more, and so on. Eventually Stumpf could only focus on long-term than the short-term profits because what they were doing was working. Find a deeper in take on our analysis of short and long term projections on page 17. This deals with the topic

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38 See Fort page 87
39 In 2016, the word "cross-sell appeared five times in Wells Fargo's earnings report and was mentioned eight times in a speech to Wall Street, emphasizing the ability of Wells Fargo to cross-sell (Wells Fargo dumps toxic 'cross-selling' metric)
40 See Fort page 87.
discussed in class called incrementalism. This idea holds that people do not wake up as criminals but rather they lose their ethical footing and eventually it becomes a slippery slope. Stumpf may have lowered his ethical bar over time.41

**Short-term Perspectives**
The short-term perspective within the shareholder theory holds to the fact that in the short-term, companies should maintain high profitability and provide financial rewards to its shareholders by focusing on meeting these goals.42 Within our case, this approach would focus on the fact that if the CEO had not been held accountable then the shareholders could have felt like no action was taken in response to the scandal and then invest their capital elsewhere. If Stumpf were to step down, shareholders might have more trust that the CEO appointed to replace Stumpf would fix the problem and sigh in relief. When the scandal broke, the share price hit an all-time low trading at $45 a share.43 The company knew that they had to act fast and likely thought in terms of what could happen in the short-term if little action was taken. In terms of short-term perspective, it would be adequate for Stumpf to take responsibility and step down in hopes that the share price would increase.

**Long-term Perspectives**
The long-term perspective of the shareholder theory focuses on intangible assets such as reputation, good will, and brand image in terms of profitability.44 Thinking long-term, it could do a lot of damage to a company to bring in a new CEO in the midst of a crisis and could drastically affect the stability of the company. To bring in a new CEO could cause major issues for the company in the long-term because it could be unclear of how the company would perform. Stumpf had years of experience and before the scandal broke was thought very highly of. This scandal is something that had the ability to severely tarnish Wells Fargo's reputation, and the possibility of bringing in a new CEO that could cause more damage due to lack of experience has to be considered. Wells Fargo would have to bring in an individual that has the ability to lead amid multiple investigations and build up brand image in the process. Although bringing in a new CEO might help their image and reputation amid the scandal, it is unclear of what this CEO could bring to the table long-term. Although if the company does nothing this is likely to cause more of a downfall than if actions are taken.

This relates to our class discussion regarding the actions of the Indiana University Alpha Tau Omega fraternity chapter in fall of 2015. A sexually explicit video circulated of one of the brothers performing an act with a stripper. Almost immediately, the National chapter of ATO revoked the chapter’s status and called for immediate disbanding of the chapter as well. This seemed like a brash decision in the short-term, but likely helped in the long-term by enhancing the fraternity’s reputation by displaying a zero-tolerance policy for such actions. ATO chapters on other college campuses would not have wanted to deal with the bad press associated with the IU chapter's actions, so this enhanced the organization in the long-term.45

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41 Want to hear more about incrementalism? Watch https://www.youtube.com/watch?v=BSHpeg1XLA0.
42 See Fort page 88
43 Wells Fargo Stock Drops to Lowest Level since Early 2014
44 See Fort page 88
45 Sanchez
There is no clear cut answer if when analyzing an issue if a company should look at the short or long-term perspectives with more weight than the other. This varies across situations and many variables have to be considered. Did Wells Fargo want to risk taking on a new CEO amid the scandal in order to save their stock price? Or did they want to ride it out, and allow Stumpf's expertise to get them through the scandal? This entirely depends on strategy. A lot of the times a company's values align with the decisions that they make, and that will be discussed soon.46

**Lawful Economic Directives**

Lawful economic directives refer to the fact that the executives and board of directors of the company make decisions that keep in mind maximizing shareholder's value of the company. The incentive program can be seen as an economic directive for Wells Fargo to maximize its shareholders value. During the time frame of the fraud, the stock price for Wells Fargo rose by $25 per share leading to a greater value for its shareholders.47

Since the "gr-eight" program was directly credited to Stumpf, his taking responsibility could reassure the marketplace and lead to a higher share price for Wells Fargo leading to a higher value for the shareholders of the bank. The exact impact of the CEO taking responsibility and resigning on the stock price is difficult to determine but it is likely to lead to a higher price as those in market would see it as a sign of change towards the betterment of the company. Therefore it is highly likely that the Stumpf resigning would lead to shareholders gaining some of their lost value back.

**Non-economic Directives**

Non-economic directives refer to the company taking more socially responsible initiatives or other activities which enhance the reputation of the company which leads to a higher value for stakeholders. In the class discussion about economic and non-economic directives it was said that non-economic directives are just as important as economic directives. The scandal led to a really bad reputation for the company which led to a steep decline in the stock price of Wells Fargo. This actually led to value being destroyed for the shareholders of Wells Fargo rather than it being maximized.

**Hard Trust**

The book defines hard trust as "coercively requiring corporations to adhere to standards" and that it pertains to law and public opinion.48 Hard trust is about an outside party ensuring that the firm does not indulge in socially or legally questionable behavior. CEO Stumpf did not violate hard trust in this situation. While the incentive program he put into place did lead to employees creating phony accounts to meet their sales target, nowhere in the incentive he put in place ask the employees directly to create fraudulent accounts. This is more likely to not get him to resign as he did not violate any laws or other rules when he put in place an incentive program. When he put the program in the place, he might not have thought the middle management would misconstrue it to be an absolute requirement.

46 Look at Virtue Theory section of paper on the next page (19) for more information.
47 Google Finance
48 See Fort page 202
**Virtue Theory**

Virtue theory is the last theoretical framework we will take a look at in analyzing our ethical dilemma. It was brought to the business world by Robert Solomon and Ed Hartman.\(^{49}\) When applying virtue theory there are three steps to follow. The first is identify relevant virtues. This can be done by looking at different philosophers views which we chose to look at more contemporary philosophers rather than Aristotle or Plato. Finding virtues is also done by searching for the virtues in a company’s mission statement. A third way to find virtues is to select a group of people and find the core values they vote on. We will be analyzing the virtues our ethics class came up with and seeing how they align with our dilemma. The next step is to determine which of the values from the previous step are relevant to our situation. Not all virtues may be needed to look at in a given situation. This step involves defining each virtue because people have differing opinions on what integrity, honesty, persistence, etc. mean. Virtues mean different things for different people depending on how they were raised, physiological, and demographic factors. The final step of virtue theory is to apply them. How are these virtues going to help look at our problem?\(^{50}\)

**Looking at Philosophers**

**Immanuel Kant**

The first philosopher we looked at was Immanuel Kant. He focused on categorical imperative which means that for a law to be moral, it needs to be applied with a degree of universality.\(^{51}\) Kant is saying that we should apply the principle to ourselves and see if we like how we are treated. We found two views for Kant with our situation. First let's look at one of our first class discussions on how women are treated disproportionately to men in work meetings. It was brought to our classes attention that when the girls in the class are put in groups with other Kelley males, they feel their contributions are not well recognized or listened to in meetings. On the other hand, the males did not recognize this and thought they had included women in the conversation. This applies to our question because it may seem easy for Stumpf to want to blame the employees who actually did the creating of fake accounts. But, if Stumpf was asked to become of the lower level employees who had to compromise their morals to create fake accounts and then were fired for doing what they were told, he would think it is unfair. So in our class discussion, if men were put in a situation where they only had women in their group and the women ignored them, they would not appreciate how they were treated. In this view, Kant would say it would not be fair for the one percent of employees to be held responsible because of this.

This leads to the next view that if the fired employees were not held accountable and the CEO was, would this be ethical? Kant would think the CEO would not be fairly treated either for taking on all the blame because Stumpf did not tell the employees to create fake accounts, and yet he is being held accountable for everyone's actions with one percent of the workforce being fired.

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\(^{49}\) See Fort page 128  
\(^{50}\) See Fort page 127  
\(^{51}\) See Fort page 113
Ed Freeman
The next philosopher is the originator of the Stakeholder theory. Ed Freeman believes that stakeholders are people, not labor inputs and that they should be treated as an end rather than a means to an end. In looking at if the CEO should be held accountable, Ed Freeman would say that he should. Stumpf, as well as upper management, treated the low-level employees as means to an end. The Gr-eight initiative was a way to build profits and they fired employees who were concerned about the ethics behind the program. By ignoring these employees and not changing the initiative, this demonstrated that they were in it for the money rather than making sure the employees were satisfied. Because these employees were not treated as an end, Freeman would not think they should be held largely accountable.

Norman Bowie
The last philosopher we analyzed was Norman Bowie who had the saying "respect for persons". Bowie would say a moral principle should be followed if it is universal. In our situation the employees who had to make the fake accounts knew it was wrong based on articles from employees who wished to remain anonymous but still continued the immoral acts. These employees wished to remain anonymous in fear of being fired. Bowie would believe that this moral idea was not followed by the employees and therefore should be held accountable. Even though they would be fired for speaking out, at least they would be following a universal moral principle.

Looking at the Mission Statement
Wells Fargo does not have a set mission statement, instead they have a set “vision” and a number of values that guide their actions. The company states when welcoming those to this section of the website that, “Our values should guide every conversation, decision, and interaction. Our values should anchor every product and service we provide and every channel we operate.” Their values are as followed:

<table>
<thead>
<tr>
<th>Value</th>
<th>Definition</th>
<th>Application to the Case</th>
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<tbody>
<tr>
<td>People as a competitive advantage</td>
<td>Wells Fargo uses a staffing strategy that allows them to use their employees or &quot;people&quot; as a competitive advantage. They expect the best from their team members and look to them for</td>
<td>-Wells Fargo compromised their values of people as a competitive advantage by incentivizing them to reach nearly unattainable quotas which caused them to take illegal actions. Instead of treating their people as a competitive advantage, they treated them as a means to make profits. -Their employees did not provide a competitive advantage, instead they caused the downfall of the company. Instead of thinking of themselves as a competitive advantage.</td>
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52 See Fort page 113
53 See Fort page 114
54 Wells Fargo workers: I called the ethics line and was fired
55 Vision and Values - Wells Fargo
<table>
<thead>
<tr>
<th><strong>What’s Right for Customers</strong></th>
<th>The culture Wells Fargo looks to create is one that is diverse.</th>
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</table>
| **Ethics**                    | -Ethics were definitely violated in the actions of Wells Fargo employees. The actions taken place were not honest and did not reflect integrity within their employees. Additionally, trust was broken. It is highly unlikely that the customers whose accounts were duplicated will bank with the company again and likely have little trust in the company.  

-Stumpf's integrity comes into question in regards to his actions when answering questions regarding the scandal. A lot of times when asked about accountability, he looked to the board of directors and the 1% of employees who did wrongdoing instead of himself. By resigning, he would take responsibility for what has been done and reflect his integrity. |
| **Diversity and Inclusion**   | -Diversity was not broken, but inclusion was within this case. If employees had been included in the incentive program it is |
and includes employees’ wishes and feelings. They want employees to feel comfortable being a part of the community and help the company succeed. unlikely the goal would have been to open eight accounts per customer. Additionally, it is unlikely that employees within the organization felt comfortable with the fact that when fraudulent activity was reported, those employees were let go from the organization. It can be reasonable to assume that some employees did not feel comfortable going into work every day.

**Leadership**
Wells Fargo defines leadership as “the act of establishing, sharing, and communicating our vision, and as the art of motivating others to understand and embrace our vision.” Regional managers did the opposite of what Wells Fargo defines as leadership. By setting unrealistic sales goals without communicating with those who they managed and providing little incentive to motivate tellers to do the right thing, they did not display leadership. Wells Fargo’s vision as described in their values did not align with the actions taken by their leaders.

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**Looking at the Class Virtues**
As a class, we came up with a list of seven virtues that we thought were important to us and to our class or company. Within the virtue theory, we analyze how our class virtues align with our case.

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<tr>
<th>Virtue</th>
<th>Definition</th>
<th>Application to Wells Fargo Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td>Integrity involves being honest and guiding yourself with a set of moral principles.</td>
<td>-As discussed above, during questioning Stumpf did not act with integrity. Instead of taking ownership and being honest in his involvement in the scandal, he pushed ownership onto regional managers and the Board of Directors. It is highly unlikely the regional managers had the ability to afford the kind of legal help he did. -The employees also did not act with integrity. Although this does not need an explanation, they did not follow a set of moral principles and were not being honest. If they had acted with integrity, the downfall of the company would not have existed.</td>
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<tr>
<td>Respect</td>
<td>Respect is a feeling of admiration associated with another individuals</td>
<td>-Prior to this scandal, Stumpf had a lot of respect from others. He helped build the financial giant to the success it had prior to the scandal. Once the</td>
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<tr>
<td>Abilities, accomplishments, or actions.</td>
<td>story broke, respect for Stumpf went out the window. He likely gained some respect from stepping down as CEO, but his legacy had been tarnished.</td>
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<tr>
<td><strong>Accountability</strong></td>
<td><strong>Accountability is taking ownership or responsibility over a certain action that has taken place.</strong></td>
<td>- By resigning, Stumpf would take accountability for his actions but as stated before, during questioning he pushed the blame onto others in the decision-making process. Although the incentive program was Stumpf's idea, he stated that regional managers had been let go and the Board of Directors was handling how the reimbursement of customers was going to be handled.</td>
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<tr>
<td><strong>Reliability</strong></td>
<td><strong>Reliability is being trustworthy and consistently showing up. Someone who is reliable is not known to let others down.</strong></td>
<td>- Reliability was not really an issue within our case, although it could be argued that Stumpf let his employees down by not being there for them when unethical practices started to arise due to impractical sales quotas.</td>
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<tr>
<td><strong>Collaboration</strong></td>
<td><strong>Collaboration is the act of allowing multiple voices being heard when solving a problem and brainstorming solutions. The product of collaboration is not one single person's idea, but instead of a melting pot of the teams ideas.</strong></td>
<td>- Within the incentive program, collaboration was what was missing. By communicating with those who were actually opening accounts for customers, Stumpf and other executives likely would have realized that eight accounts per customer was pushing it and putting unnecessary pressure and hardship on employees. By simply asking employees for their input, the entire situation could have been avoided in the first place.</td>
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<tr>
<td><strong>Profitability</strong></td>
<td>Simply put, profitability is making money or obtaining a financial gain.</td>
<td>- The one thing that this case aligns with is the idea of profitability. Prior to the scandal, cross-selling was the value that Stumpf sold to investors when trying to sell stock. Some may argue that although what happened was illegal, it did keep the company profitable and keep shareholders happy with their gains. This argument is addressed in Milton Freidman's article &quot;The Social Responsibility of Business is to Increase its Profits&quot;. He states &quot;there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game... &quot;. That last line is what is</td>
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important. Many use this article when unethical practices arise, but Friedman states you must stay within guidelines.\textsuperscript{56}

| Passionate | By being passionate, that means that you truly believe in something. Passion is a strong or barely controllable emotion that takes over when you are completely invested in a project and truly believe in what you are doing. | -It can be argued that Stumpf did not act in passion, he acted for profit. Although, one would hope that a CEO of a company would be passionate about what they do and believe in the company. This could be why in the beginning, Stumpf did not want to step down. He was well respected within the industry and had been a force to be reckoned with. Many would agree that one cannot build up such a reputation without having passion for what they are doing. |

\textbf{Good Trust}

Good trust in our book is defined as "about caring about ethics".\textsuperscript{57} It is about the motivation to stick to laws and ethics. As discussed in class, good trust is about doing the right thing and sticking to your word even if nobody is watching. The CEO violated good trust as he knew about the fake accounts for two years and customers being charged wrongly for the services they did not request in the first place.

His stepping down would be an act of good trust only if he did it himself and because he thought that it was the right thing to do. But if he resigned due to the pressure from various stakeholders (government, shareholders, etc.) then that would be a violation of good trust. Stumpf would demonstrate good trust if he took responsibility for the consequences of his incentives program and resign before the scandal is even made public.

\textbf{Conclusion}

At this point, we have completed the first five steps of the Hosmer 6. By compiling the different angles and perspectives that the decision maker would have to look at before making a reasonable solution we have come to a group consensus that Stumpf stepping down and taking a larger portion of responsibility was a good decision. By doing so, someone was held accountable for the actions of thousands and he took ownership of the fact that the CEO represents his people. It also comes down to the fact that Stumpf created the incentive program without considering facts, instead the basis was the fact that the words rhymed.

We came to this conclusion in part based on our findings by looking at the short- and long-term perspectives which was that Stumpf stepping down would help. Normally whenever a scandal takes place an organization's stock takes a hit until the company takes action to resolve the problem. By Stumpf stepping down, an action takes place. This would also help the company in the long-term by building back the trust of individuals due to new leadership. That in turn will

\textsuperscript{56} Friedman
\textsuperscript{57} See Fort page 206
build the reputation of the company by showing that they take action when things go wrong and hold leadership accountable.

Along with those two perspectives, we came to our conclusion by putting some significance on the equality dimension of stakeholder theory. Since our problem questioned the amount of responsibility the one percent of employees should take on, we thought this dimension helped us decide. In this section we found that although employees were to take part in a morally compromising job initiative, it ultimately resided with the CEO because in the end, he profited and benefitted the most out of the work from the lower level employees.

Now, there are sections that go against our conclusion. The CEO did not violate hard trust in any of the events leading up to him in a position to make a decision regarding his role with the company. The Gr-eight initiative, though not backed by any research and made on whim, was a perfectly legal program which encourage the employees to get each customer to have an average of eight financial products. Nowhere did it mention that the employees should create fraud accounts and con their customers. We thought this was less important than the other aspects mentioned because the others proved more valuable. This means, we found the stakeholders views and the employees' and customers post scandal life were more valuable than the CEO following hard trust.

Now for the hard question...
What does this have to do with ethics? The basis of ethics is building relationships. With our situation, multiple relationships have been broken be it via the employee and managers, the shareholders and the company, and even the CEO and his family. Our question raised was aimed to find a decision on how to mend or maintain relationships. Would stakeholders be happier if the CEO took all the responsibility or the one percent of the workforce or some combination?

Total Integrity Management
Total Integrity Management is a proactive model that hopes to address an ethical dilemma before it occurs, or how things should have been handled. As discussed in class, it is what companies do to create an environment in the future. Total Integrity Management encompasses hard trust, good trust, and real trust using the formula $TIM = (LCJ + (RK + JR + U)) (M^3)$ with $LCJ$ representing hard trust, $RK + JR + U$ representing real trust, and $M^3$ representing good trust. Something important to note is that if good trust is zero, the entire function is zero. If there is no motivation to perform an ethical act, then it will not be performed. This represents how the motivation to support ethics leads to a sustainable peace and a passion to do "good" within an organization.

Hard Trust
As mentioned in shareholder theory, the book defines hard trust as "coercively requiring corporations to adhere to standards" and that it pertains to law and public opinion. Hard trust is about an outside party ensuring that the firm does not indulge in socially or legally questionable behavior.

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58 See Fort page 201
59 See Fort page 206
60 See Fort page 202
As mentioned before, Stumpf himself did not violate any hard trust, but his employees did. A proactive approach to help with our moral issue is to have policies in place that outline what a CEO should be accountable when scandals break. For large companies such as Wells Fargo, it is impossible for a CEO to track every action that every employee does and scandals do happen. Better rules in place in regards to accountability would help address this ethical dilemma.

Additionally, within the incentive program that Stumpf created it could have outlined if ethical issues arose (such as the creation of fraudulent accounts) how management was going to resolve this problem and what outlets had to become aware of the issue. Within this section the issue of how management was supposed to handle sales quotas should have been addressed since multiple former employees complained about management striking down on quotas and not making it an incentive, but instead a bottom line that must be met. Having rules in place to safeguard against fraud would have been a practical approach to utilize.

Each of these solutions are a proactive measure within hard trust because they are rules that address situations that could happen, instead of situations that have happened. If these solutions had been put in place before fraudulent activity took place, the downfall caused by the scandal likely would not have been as great.

**Real Trust**

Our book mentions real trust is about "building social capital, reputation and good will through ethical business behavior". It is about sticking to your word and acting on your ethics even in the most difficult situation. It is about "garnering the confidence of the stakeholders because you keep your word and tell the truth".

To have built real trust, Wells Fargo could have had the CEO present the quarterly findings, what is going on with company, and how well the Gr-eight program was performing. If the public was the audience, this could build their trust in the company. Believing that the CEO is aware of what is going on within the company builds trust. If people hear it from the CEO they may think that since it is his responsibility to know about all the departments, then he would know best. This also adds a layer of accountability which helps prevent our question of who should be responsible. If the CEO reports everything to the stakeholders, then he is giving them his word. If something happens, such as the Wells Fargo incident, then the stakeholders can look to the CEO as someone to talk to and question on why he did not provide them with the real facts.

This is a proactive approach because, as mentioned, this could help prevent a situation of who is responsible, who should be held accountable, who should step down. Logistically, this may have a few flaws because then we have to rely on the departments to give the CEO honest information to report. The aim of this approach though is to get the CEO to want to know the truth within his departments because if he does lie to stakeholders, he is the one to blame. If he does know the truth and there is a problem to report, he can report it right away and ensure the public that they were working on a solution. This would allow the CEO to possibly take opinions from the public depending on the severity of the situation. This would build real trust because by providing

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61 See Fort page 204
information on a "difficult situation" they would be "garnering confidence". In the management

course of ICORE, we learned that people react more favorably if they are provided with realistic

job previews that include the negatives of the job before starting to work than finding out all the

negative job tasks once they start.62 Hence, with our situation, if the public knew of the fake

accounts at the beginning and saw Wells Fargo was being proactive about the solution, people

would react more favorably than finding out about two million fake accounts in the news one

morning.

**Good Trust**

Good trust in our book is defined as "about caring about ethics".63 As discussed in class, good

trust is about doing the right thing and sticking to your word even if nobody is watching. Good

trust, as the book mentions, is about motivation to stick to the ethical frameworks.

First thing that Wells Fargo should do to build good trust is to have another investigation

conducted. Rather than targeting the employees who committed the fraud, they should this time

look into the instigators of the fraud in the upper management. While those employees who

created the phony accounts have been fired, the managers who pushed the aggressive agenda and
directly or indirectly encouraged the employees to commit the fraud are still a part of the

company. This will lead them to still being aggressive in their approach and potentially corrupt

the new employees which can lead to more of such incidents. The end product cannot be good if

the system and processes themselves are broken down. By trying to get to the root of the cause

Wells Fargo would show the motivation to its commitment towards the ethical frameworks.

Wells Fargo should have an active program in place wherein the executive officers of the

company would be required to have certain number of meetings in a month with low-level

employees. This would lead the decision makers to have a better informed view. One way

Stumpf could have built good trust was by talking to the employees when issues started to come

up. As by doing this he would have been able to make out why employees felt the need to

compromise their morals.

Another way Wells Fargo could build good trust is by having a stronger whistleblower program.

Unlike the current ethical hotline, this program would guarantee anonymity. While some may

argue that this should be a part of real trust since it talks about conforming to the company's code

of conduct, this actually relates more to good trust as employees are provided with motivation to

go follow the company virtues and point somebody out if they don’t do so.

Lastly, Wells Fargo needs to build good trust with their customers. Due to the fraudulent

activities, wrongful charges etc. the customers faith in their bank has wavered. In order to build

that Wells Fargo should put policies in place which ensure that they do their best to inform the

customers whenever a new financial product is purchased. As mentioned above, a lot of

customers didn't know they had debit or credit cards because employees had them directly

delivered to the bank branch. Therefore one effective solution to combat this could be making it

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62 This is a course required at the Kelley School of Business at Indiana University. Information taken from Summer 2017.
63 See Fort page 206
required for the cards to be delivered directly to the customer's home address rather than at the bank. Also if a customer purchases any financial product then they should be notified with an email, text or mail alert.
Works Cited


"Vision and Values - Wells Fargo." *Wells Fargo*.

Footnote Guide


9 Fort text pgs. 65-66


11 The moral problem posed is under the notion and understanding that the incentive program compromised employee’s moral integrity as found within accounts and research about the program outlined in Key Facts on pgs. 4-5.

12 Not included in the paper is how we came to the conclusion of the act to create fake accounts as unethical. Slightly curious? Read "The Hazards of Workplace Anxiety" (found in the Works Cited) which links workplace anxiety to unethical behavior.

13 Fort text pg. 66


16 What follows in an explanation that is very brief. Warren questions Stumpf for a total of nearly eighteen minutes which you can find at this link: https://www.youtube.com/watch?v=xJhkX74D10M

17 Fort text pg. 67

18 Staley, Oliver. "Wells Fargo just became the poster child for when external and internal values don't match." *Quartz*. Quartz, 08 Sept. 2016. Web. 13 June 201

19 Eye in the Sky was a movie watched in class and was released in 2016

20 Fort text pg. 68

21 Fort text pg. 69

22 Fort text pg. 69


24 Fort text pg. 114
1000 employees were rehired

Don't believe us, watch this video! https://www.youtube.com/watch?v=BgRoiTWkBHU


Find a deeper in take on our analysis of short and long term projections on pg. 17

Want to hear more about incrementalism? Watch https://www.youtube.com/watch?v=BSHpeg1XLA0.


See Virtue Theory section starting on pg. 19

"Wells Fargo & Co." Google Finance. Google


"Vision and Values - Wells Fargo." Wells Fargo.


See BUS-Z 370 Course Description