

Case Study: Factors Influencing Business Ethics in an Organization



Case Study: Factors Influencing Business Ethics in an Organization Real-World Example: Wells Fargo & the Cross-Selling Scandal

Background

Company: Wells Fargo

Industry: Financial Services

Headquarters: San Francisco, California, USA

Employees: ~250,000 (during the scandal)

Time Period: 2011-2016

Source: https://en.wikipedia.org/wiki/Wells_Fargo_account_fraud_scandal

The Ethical Dilemma

Wells Fargo enforced an aggressive "Eight is Great" sales culture, aiming to increase the number of accounts per customer to eight. Employees were under immense pressure to meet these targets or risk termination. As a result, employees illegally created over 3.5 million fake accounts using customer data - without their consent.

Source: <https://corpgov.law.harvard.edu/2019/02/06/the-wells-fargo-cross-selling-scandal-2/>

The Scandal Unfolds

By 2016:

- - 3.5 million fake accounts were uncovered
- - Customers were charged fees for unauthorized accounts
- - Over 5,300 employees were fired
- - Wells Fargo was fined \$185 million in total by federal regulators and the City of Los Angeles

Source:

<https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-fines-wells-fargo-o-100-million-widespread-illegal-practice-opening-unauthorized-accounts/>

Key Factors Influencing Business Ethics

- - Leadership & Tone at the Top: Top executives prioritized sales over integrity.
- - Incentive Structure: Bonuses based on number of accounts encouraged fraud.
- - Organizational Culture: A high-pressure, fear-based culture discouraged ethics.
- - Lack of Whistleblower Support: Employees who spoke out faced retaliation or dismissal.
- - Internal Governance Failure: Senior management and the board failed to act on early warnings.

Source: <https://ethicsunwrapped.utexas.edu/case-study/wells-fargo-and-moral-emotions>

Consequences

- - CEO John Stumpf resigned in 2016
- - Company paid billions in fines and legal settlements
- - Congressional hearings damaged public image
- - Regulatory restrictions placed (e.g., asset cap by the Federal Reserve)
- - Company launched reforms: culture revamp, executive clawbacks, and a new ethics framework

Source: <https://www.wsj.com/finance/banking/wells-fargo-federal-regulators-fake-accounts-ba627ecc>

Learning for MBA Students

- - Ethics must be built into company goals, not just policies
- - Poorly designed incentive systems can undermine corporate integrity
- - Leadership behavior defines acceptable norms
- - Whistleblower protection is crucial for early correction
- - Long-term damage often outweighs short-term wins

Discussion Questions

- What ethical decision-making models could have prevented this issue?
- How can future managers balance performance with ethics?
- If you were on the board, what red flags would you monitor proactively?

Disclaimer & Contact Information

This case study has been compiled for educational purposes and is based on publicly available sources at the time of writing. While every effort has been made to ensure accuracy, readers are encouraged to verify critical information from the original sources listed.

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