

# Lessons from the Wells Fargo Scandal

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Wells Fargo was considered a values-based organisation – at least until recently. Wells emerged from the mortgage crisis earlier this century with the reputation of being "one of the good guys." And on their website, their CEO, John Stumpf proclaimed in bold letters, "Everything we do is built on trust. It doesn't happen with one transaction, in one day on the job or in one quarter. It's earned relationship by relationship." If this values-based environment was anything more than public relations lip service, what prevented these values from trickling down the organisational chain and halting the massive scandal that was unearthed earlier this month?

As we know all too well by now, in an effort to meet targets and receive the accompanying incentives, Wells Fargo employees created over 2 million fake bank and credit card accounts from which they charged various fees. While the fees were real, the fraudulent accounts were never authorised by the owners.

How could a so-called values-based organisation allow this to happen? The incentive structure at Wells definitely had something to do with it. Even outside the banking industry, we can find numerous cases of incentives causing unethical (and sometimes deadly) behaviour. For example, Abbott Labs' Indian arm was so aggressive with its sales targets that drug reps were pushed to set up "health camps" where the reps would perform medical tests on potential patients – well outside the purview of a sales rep's expertise and authority. The sales rep would then recommend the patient to a specific doctor who would prescribe an Abbott drug for the disease or disorder. These sales targets were so aggressive that one Abbott rep committed suicide because of his inability to meet them.

The effects of incentives on unethical behaviour aren't limited to the business world. Sports, where winning is often accompanied by large financial incentives, has seen numerous doping and match-fixing scandals – from cycling, to track and field, to cricket. Even in a world that is built upon the values of sportsmanship and "playing by the rules" we find that incentive systems can drive people to act in opposition to these values.

While goal-setting is no doubt an important motivator of human behaviour, it can also be the source of unintended insidious consequences. For example, research that I conducted in collaboration with

Tim Vriend and Onne Janssen at the University of Groningen shows that due to the desirability of being in top place, merely telling someone that they are in second place and can move to the top will stimulate unethically to get there – when accountability and appropriate checks on behaviour are unavailable.

On top of incentive structures, the banking industry has faced some unique challenges in the last decade – no doubt some of their own making. For example, consistent with the digital revolution, within a few decades, banks have transitioned from a fully face-to-face model to one where the customer never walks into the bank and the bank employee never meets the customer whose money they are managing. Social scientists know that impersonal interactions allow for more unethical behaviour (both on the part of the employee and on the part of the customer) because people don't feel responsible towards one another.

Second, in the last decade, the banking industry has suffered a crisis of trust. When trust is lacking, people become cynical of the world around them and assume that others are "out to get them" and cheat them. A culture of distrust leads people to feel justified in "bending the rules" from time to time since they believe that others are also doing this as well.

Together, these factors provided a perfect storm to allow the recent debacle to occur and robbed Wells' employees of an internal compass to help rein in their greedy behaviour. I don't think Wells was a bad apple in an otherwise healthy barrel. Rather, this scandal was the product of systematic problems fuelled on by organisation-based incentive programs that provide no incentive to act ethically and every incentive to act in self-serving ways.

The question now comes to what Wells (and other organisations) can do to change the culture and prevent behaviour like this from occurring in the future. I am not arguing for the wholesale removal of incentives; incentives are powerful motivators. But what I am against is the use of single, focused targets. If the values-based environment at Wells is indeed anything more than lip service, then Wells needs to implement a two-pronged incentive program that focuses not only on meeting financial targets but also on meeting values-based targets. For example, the bank could look at the extent to which an employee implements or suggests a program consistent with the organisation's values. The airlines have done this by incentivising pilots not only for on-time departures and arrivals but also for their safety record. Now, it is no doubt easier to monitor and measure a quantitative bottom line than it is to monitor and measure a more "soft-target" like behaviour in support of the company's values or customer safety. But without this broader approach, unethical behaviour is likely to flourish.

The writer is Professor of leadership, IMD business school, Switzerland

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