

# Ethical and Corporate Governance Failures in the Wells Fargo Fake Accounts Scandal (2016): Impact and Implications for Corporate Responsibility

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**Abstract.** This study investigates the corporate governance and ethical failure that led to the 2016 Wells Fargo stage account crisis, one of the most notorious recent bank scandals. The scandal erupted when 3.5 million unauthorised accounts were opened by bank employees working under intense pressure to meet impossible sales targets. This study reveals significant ethical shortcomings, such as support for improper selling practices and poor management of whistleblower complaints. Additionally, it considers corporate governance shortcomings, i.e., inadequate board and management controls, permitting the deceptive activities to proceed. Ethical egoism, a theory whose core is self-interest, is mentioned compared to the scandal, showing how the profit motive incentives resulted in improper behaviour.

Additionally, the paper discusses the implications of corporate responsibility, which include the need for stronger governance structures, ethical leadership, and regulation to prevent such scandals. The research emphasises the need for ethical standards in financial institutions to protect consumers, enhance investor confidence, and ensure long-term corporate sustainability. Finally, it calls for re-examining corporate cultures prioritising profits at the expense of ethics and imposing stringent internal controls to prevent further misconduct.

**Keywords:** Corporate Governance; Corporate Responsibility; Ethics.

## INTRODUCTION

Wells Fargo, one of the leading financial institutions in the United States, has a long history dating back to its founding in 1852. The organisation grew exponentially over time and became a banking services giant, particularly after it acquired Wachovia in 2008, which opened its doors across the country [1]. However, despite its strong financial health, the bank's high-pressure sales culture

and aggressive environment led to one of the most notorious corporate scandals in recent banking history [2].

The 2016 Wells Fargo Fake Accounts Scandal erupted when it was revealed that the bank's employees had opened millions of unauthorised customer accounts by fraud. Under severe pressure to list unrealistic sales targets, employees opened

more than 3.5 million deposit and credit card accounts with customers' consent [3]; this is driven by a company culture that rewarded cross-selling financial products, exhibited through the internal slogan "Eight is Great," whereby the staff were encouraged to sell at least eight products to every customer [4]. The criminal activity was not an isolated event but rather a systematic failure initiated by leadership and governance [5].

Regulatory probes by institutions like the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Los Angeles City Attorney led to a collective penalty of \$185 million on Wells Fargo [6]; this led to a surge of criticism by lawmakers and ended numerous congressional hearings in which CEO John Stumpf was made to answer for the bank's unethical behaviour [7]. The scandal also led to severe reputational loss, widespread customer distrust, and losses in finance, compelling the company to institute governance reforms and measures of ethical oversight [8].

The debacle emphasised critical shortcomings in Wells Fargo's corporate governance, ethical leadership, and regulatory compliance. The failure of the bank to curb unethical sales activities indicated the risks posed by profit-driven corporate cultures and the need for stronger oversight mechanisms [9]. The aftermath included the resignation of high-level brass, regulatory reform, and the implementation of stricter corporate responsibility standards [4].

*Importance of Ethics and Corporate Governance in Financial Institutions.* Ethics and corporate governance are the pillars for ensuring trust, stability, and accountability in financial institutions as the drivers of economies and individuals; banks and financial institutions must maintain high levels of ethics and governance systems to prevent fraud, malpractice, and economic crises [1, 10]. Corporate governance ensures transparency, accountability, and fair decision-making to minimise risks associated with unethical leadership and ineffective management. The Wells

Fargo's case highlighted how poor governance, i.e., insufficient board oversight and coercive sales targets, can lead to entrenched fraud and customer abuse [4]. Sound governance frameworks, i.e., regulatory compliance and internal audits, ensure long-term institutional integrity [7].

Ethical conduct in financial institutions preserves customer rights, encourages investor confidence,

and prevents reputational damage. As has been illustrated with Wells Fargo, unethical business strategies instilled distrust, culminating in lawsuits, regulatory measures, and leadership resignation [8]. Financial institutions that follow ethical leadership and governance reduce corporate scandal threats and encourage economic sustainability [9]. Ethical governance ultimately shields financial institutions against crises, ensuring their long-term sustainability and credibility [11].

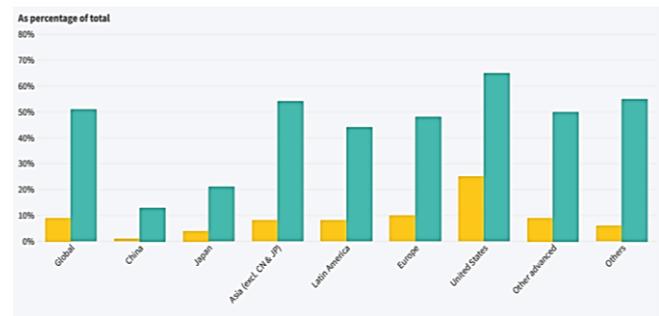


Figure 1 – Board committees responsible for sustainability [10]

## RESULTS AND DISCUSSION

### *Identifying Key Ethical and Governance Failures and Their Impact on Corporate Responsibility*

The 2016 Wells Fargo Fake Accounts Scandal is a case study of how corporate and ethical governance lapses can lead to systemic financial wrongdoing, regulatory penalties, and reputation loss. One of the key ethical failures was the bank's culture of aggressive sales pressure, where employees were incentivised for deceitful conduct, such as opening fake accounts to meet unrealistic sales goals [11]. Weak corporate governance allowed these wrongful practices to persist because the board of directors and the senior leadership did not enact the required oversight and compliance procedures [4].

The lack of transparency and accountability at Wells Fargo costs billions in penalties and consumer confidence, pushing for regulatory reforms in the banking industry [7]. The scandal emphasises the importance of ethical management, adequate internal controls, and stringent regulatory policies to prevent corporate wrongdoing [8]. By examining these failures, this research accentuates the greater implications for corporate responsibility, citing the importance of financial institutions exercising integrity and prioritising

shareholders' interests to ensure sustainable business practices [9, 12].

### **Ethical Failures in the Wells Fargo Scandal**

*Unrealistic Sales Culture:* Wells Fargo's poisonous sales culture was one significant source of the 2016 scandal. Employees at the bank were under heavy pressure to meet lofty sales objectives, often requiring them to sell a minimum of eight financial services to each customer, a strategy that was distilled in the mantra "*Eight is Great*" [4]. These unrealistic targets prompted employees to resort to unethical practices, such as opening fictitious accounts to achieve sales targets [11]. Most of the frontline workers were scared of losing their jobs in the event of failure to attain quotas, which forced them into deceitful activities [9]. The incident illustrates how a corporate culture obsessed with short-term gains can promote pervasive unethical behaviour and eventually destroy consumer trust.

*Fraud & Deception:* The Wells Fargo scandal was characterised by widespread deception, with workers engaging in fraud to fake sales numbers. Fraudsters created over 3.5 million unauthorised accounts using forged signatures, fake email addresses, and false customer information [7]. The company signed up customers for credit cards and financial products without their knowledge and, in most cases, charged them fees and penalties [8]. These frauds were not isolated incidents but systemic and persisted due to lax internal controls and the absence of accountability [1]. The scandal highlights the risks of profit-making interests overriding ethical business practices.

*Retaliation Against Whistleblowers:* Employees who attempted to whistleblow on unethical behaviour at Wells Fargo were rewarded with retaliation rather than protection. Some whistleblowers reported opening fake accounts, being demoted, fired, or harassed at work [6]. Instead of acting on internal complaints, the company actively discouraged dissent and silenced employees who attempted to speak out about wrongdoing [6]. The lack of whistleblower protection prolonged the abuse and accused other employees of speaking out [9]. This failure underscores the need for stronger corporate policies encouraging ethical reporting without retaliation.

*Breakdown of Ethical Leadership:* A breakdown of ethical leadership was at the core of the Wells Fargo scandal. Executives, including then-CEO

John Stumpf, ignored early warning signs and dismissed warnings from regulators and employees [4]. Rather than prioritising ethical business practices, upper management rewarded high sales figures, even when they were achieved through fraud [7]. The failure of leadership to take responsibility and institute meaningful reforms ultimately led to financial penalties, reputational damage, and the resignation of top executives [8]. This case highlights the necessity of ethical leadership for fostering corporate integrity and sustainability.

### **Ethical Egoism about the Wells Fargo Scandal**

Ethical egoism argues that people should act in a way that promotes their self-interest. This instance directly relates to the actions of Wells Fargo's managers and employees during the 2016 fake accounts scandal. Ethical egoism argues that selfish actions are morally acceptable, which leads to business decisions that place importance on generating profits over what is moral [13]. With the example of Wells Fargo, employees, under massive pressure, employed dishonest means with the belief that meeting unrealistic sales targets would accrue to the benefit of their long-term employment security and pecuniary wealth [11]. But this act of egoism ultimately backfired, revealing the fallacy of ethical egoism as a moral theory.

Wells Fargo's business leadership adhered to values proximate to ethical egoism, focusing on shareholder return and profit-making over ethical obligation. Ayn Rand, a very vocal proponent of ethical egoism, argued that self-interest is the highest moral achievement [14]; this is seen in Wells Fargo's incentive structures, which reward employees who meet strict sales goals, irrespective of the ethical implications [4]. The scandal illustrates how unchecked self-interest can generate systemic unethical behaviour when employed within a commercial setting, refuting the notion that pursuing self-interest must be ultimately for the good of all.

Critics argue that ethical egoism as a theory of morality does not work. It misses broader ethical and social commitments [13]. Wells Fargo's pursuit of profit at the expense of ethical behaviour resulted in severe reputation damage, legal sanctions, and financial losses [7]. This case study points to the moral risks of an egoism-based corporate culture, underscoring the need for ethical leadership and governance structures that prioritise stakeholder welfare over short-term gain.

## **Corporate Governance Failures in the Wells Fargo Scandal**

*Board Negligence:* The board of directors at Wells Fargo failed to provide adequate oversight, and unethical sales tactics were permitted to persist unchecked. Despite numerous internal warnings and employee complaints, the board was not actively investigating or stopping the fake sales activities [4]. Instead of having stricter governance policies, the board relied on misleading management reports that downplayed the scope of the malfeasance [7]. Such neglect ultimately caused reputational damage, legal costs, and financial losses, demonstrating a corporate governance breakdown emphasising near-term profitability over ethical accountability [11].

*Weak Internal Controls:* Wells Fargo's weak internal controls permitted the unauthorised account openings to continue unnoticed for years. The compliance and risk management departments failed to detect red flags despite receiving numerous reports of unethical sales practices [6]. Bank executives ignored or weakly applied internal control activities instead of conducting thorough investigations, which allowed widespread fraud to surge [8]. The breakdown of internal oversight highlights the dangers of prioritising profit-driven incentives over regulatory compliance, as reflected in the scale of the sales abuse in many ranches [9].

*Delayed Regulatory Response:* Rather than being addressed through internal correction of unethical business practices, Wells Fargo's illegal activities were exposed by external inquiry, indicating a corporate accountability breakdown. Regulators, including the Consumer Financial Protection Bureau (CFPB), only became involved following widespread media attention and whistleblower reports [7]. The bank could have curbed the crisis sooner by implementing stronger governance controls and an effective compliance structure [4]. The delay in regulatory action indicates the need for proactive corporate governance and internal accountability to rein in ethical breaches before they become full-blown scandals [14].

### **Agency Theory about the Wells Fargo Scandal**

Agency theory explains interest conflicts that arise when firm managers (agents) pursue their interests at the cost of shareholder (principal) interests. In Wells Fargo, the scandal revealed a classic agency problem: executives met aggressive sales goals and short-term profits at the cost of

ethical behaviour and shareholder trust [15]. Instead of acting in stakeholders' interests, managers promoted dishonest sales behaviour to maximise their performance-based incentives, underscoring the perils of managerial incentives being out of alignment [16].

The agency problem in Wells Fargo was compounded by ineffective corporate governance controls that failed to exert control. The board of directors, tasked with overseeing managers, could not act in time to stop the fraud, with unchecked unethical conduct [7]. The failure is a testament to agency theory's assertion that information asymmetry enables managers to act opportunistically and enrich themselves at the shareholders' and customers' expense [17].

Additionally, the management at Wells Fargo prioritised shareholder value concerning stock performance over ethical banking practice, resulting in agency costs due to excessive risk-taking and lack of oversight [4]. This scandal emphasises the need for more robust corporate governance mechanisms, balancing managerial decisions with stakeholder requirements to prevent ethical blunders [11].

### **Impact of the Wells Fargo Scandal**

*Financial Expenses:* Wells Fargo's fictitious accounts scandal cost over \$3 billion in settlements and penalties, including penalties from the Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the US Department of Justice [7]. The expense went beyond direct penalties since the company also paid redress to affected clients and spent costly compliance modifications [8].

*Reputational Damage:* The scandal caused considerable reputational damage to Wells Fargo, resulting in customer distrust and public loss of confidence. Customers withdrew their accounts in large quantities, causing revenue losses, and the company was roundly condemned in the press [11]. In addition, the stock value of Wells Fargo declined as investors reacted to the unethical conduct and resulting regulatory scrutiny [4].

*Regulatory Reforms:* In response to the scandal, banking regulators placed Wells Fargo and the financial sector under greater surveillance and compliance requirements [6]. The Federal Reserve even imposed a limit on the expansion of Wells Fargo's assets, limiting its expansion until the governance reforms in the institution were implemented [9].

*Leadership Changes:* The scandal resulted in significant leadership changes, with CEO John Stumpf stepping down and several senior executives terminated [7]. The company also restructured its board and adopted new corporate governance practices to prevent future ethical breaches [4].

### **Implications for Corporate Responsibility**

The Wells Fargo scandal demonstrates the necessity of increased corporate accountability to halt the tide of unethical conduct and restore confidence. A key takeaway is that the focus must be on ethical leadership, where senior management officials prioritise integrity above quarterly reports and establish an accountable environment [4]. Leadership failures at Wells Fargo show how greed unmoored by a system falls into misconduct [7].

Another critical measure is increased oversight and transparency, subject to regular auditing and independent monitoring. Strong compliance mechanisms reduce fraud risks, but poor internal controls, as at Wells Fargo, enable unscrupulous behaviour and damage to reputation [6, 8].

Whistleblower protections are needed so that employees can speak out against unethical behaviour without the threat of retribution. A transparent whistleblowing policy encourages accountability and early detection of fraud [9].

Finally, sustainable business ethics transition from near-term gains to long-term honour. Adding ethical standards increases stakeholder trust and firm resilience [11]. Wells Fargo's collapse exposes the financial and reputational effects of moral compromise.

### **CONCLUSIONS**

The Wells Fargo scandal indicates the dangers of unethical business culture and governance failures. The pressure to make sales created a fraud culture sustained by poor monitoring and leadership failures. The massive reputational and financial harm led to regulatory reforms and leadership changes. The scandal indicates the need for ethical leadership, openness, and protection of whistleblowers to encourage long-term corporate integrity and responsibility.

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