Case study: Wells Fargo, Systematic Failure? Or Systemic Success?

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1. Introduction

Superorganism behavior is the organizational ideal—a collection of autonomous people acting as one toward a singular goal. While we all want our organization to act like a superorganism, adapting to the VUCA world based on real-world feedback, this is most often not the case. Most organizations do not act like superorganisms, acting autonomously-inunison and adapting to the changing landscape. When organizational leadership fails and does not guide individual actors with simple rules the consequences can be serious (or alternatively when leaders provide maleficent simple rules *covertly* and *implicitly* through system structures, incentives and punishments). Emergent behavior will result regardless, often based on implicit, unwritten rules. As seen in the case of the Wells Fargo's cross-selling scandal, this emergent behavior can be negative and even fraudulent. Until recently, Wells Fargo had a reputation for strong organizational management, due to the fact that the company came through the financial crisis unscathed, and even better off than before the crisis began (1). However, as the recent cross-selling crisis revealed, strong management is not synonymous with systems leadership.

A. Cross-Selling Scandal. In 2013, Wells Fargo employees in Southern California were found to be opening new accounts and issuing debit or credit cards without customer knowledge to meet their sales goals (2). Wells Fargo obtained additional information on customers with each new Wells Fargo product they acquired, allowing the bank to make better decisions about credit, products, and pricing (3). In September 2016, Wells Fargo admitted that their employees opened as many as 2 million accounts without customer authorization over a five-year period (3). Approximately 5,300 (4) employees were involved in these actions that were in opposition to the organization's stated vision: "satisfy our customers' needs, and help them succeed financially (5)." How exactly did this happen?

Brian Tayan, a Researcher with the Corporate Governance Research Initiative at Stanford Graduate School of Business, in his analysis of the scandal, explained (6):

> "Some outside observers alleged that the bank's practice of setting daily sales targets put excessive pressure on employees. Branch managers were assigned quotas for the number and types of products sold. If the branch did not hit its targets, the shortfall was added to the next day's goals. Branch employees were provided financial incentive to meet cross-sell and customer-service targets, with personal bankers receiving bonuses up to 15 to 20 percent of their salary and tellers receiving up to 3 percent."

The bank's practice of designing tough sales targets were aimed at increasing product sales, not meeting the organization's customer-focused vision. *Instead, these targets implied a set of rules they were to follow.* The 5,300 employees that independently engaged in fraudulent behaviors were not unlike flocking starlings: following *implicit* rules that drove [in this case negative] emergent behavior. The emergent behavior is deemed *negative* for two reasons: (1) it was unethical and illegal and (2) it was in opposition to the stated vision and mission and therefore organizationally hypocritical and lacking integrity (which of course, long-term, is neither good for employee retainment nor customer satisfaction).

B. Applying VMCL to Wells Fargo. VMCL represents four functions that are at play in any organization. While Wells Fargo claimed to have had an established vision statement*, the shared mental models among employees were not well-designed, i.e., Wells Fargo did not have a well-constructed vision or mission statement (e.g., they were not clear and concise, nor were they measurable, etc.). More specifically, the vision statement did not describe a future state or purpose. Because employees did not

*Wells Fargo's stated vision statement is: "satisfy our customers' needs, and help them succeed financially."

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have a clear vision of the desired future state, or goal, of the organization, implicit mental models were formed and acted upon. These mental models were likely based in part on sales metrics and incentives (i.e., systems structures that drive behavior) that promoted maladaptive learning, subsequent capacity-building and its ensuing repeatable actions, all of which were misaligned with the organization's stated vision. In other words, leadership (either through incompetence or impropriety) ensured certain capacital system structures were in place that drove individual learning to adapt new structures that guided repeated actions at the agent level that ensured the POSIWID outcome. At the time of the scandal, Stumpf claimed (7):

> "Our vision is at the center of our culture, it's important to our success, and frankly, it's been probably the most significant contributor to our long-term performance."

In fact, nothing could be further from the truth, systematically speaking. The incentives and metrics put in place supported organizational learning in opposition to the "vision" statement because it was profit focused, not customer focused. The sales metrics led to an implicit vision that shifted focus to maximizing profits for executives and shareholders. To meet this *implied* vision, sales staff were tasked with an *implied* mission, as demonstrated by their sales metrics, of selling more solutions to customers, regardless of a customer's need. It was then up to the sales team, to build new, creative systems and strategies to increase their capacity to carry out this implied mission. In this case, it led to opening new products *without customer consent...* and it worked (for a while).

This new capacity helped employees to meet their sales targets, and they received positive feedback (organizational learning) from management (in the form of financial incentives) because it resulted in maximizing the company's (but especially management's) profits (which more than likely was the maleficent and unstated POSIWID vision). This real-world feedback served as a *learning mechanism* for the sales team, validating and normalizing a severely fraught mental model of sales tactics that propagated the cycle of illegal, destructive behavior. It is important to remember that all organizations are learning organizations, because people adapt based on real-world feedback. Eventually, low-level employees adapted to the aggressive sales culture with these new capacities in hand. In other words, the agents in the system did exactly what they should do. They adapted. The problem is, they adapted to either the corrupt, maleficent, unethical, and illegal or [being kind] willfully incompetent and implicit directives of leadership.

It was up to the leader to shape learning, and to ensure that learning functions focused on organizational capacity to do the mission and achieve the *stated* vision (not the implied one). This requires building the right mission-critical systems, and strengthening these systems through organizational learning. Table 2 shows the undesirable (illegal) behaviors undertaken by Wells-Fargo employees, the *implicit VMCL* that created them contrasted to the desired behaviors they'd like to see out of the system and the related *explicit VMCL* that would bring that about.

System-behaviors you do not like	Implicit VMCL functioning to create them	System-behaviors you'd like to see	Explicit VMCL that would bring them about
Fraudulent banking practices	(V) Maximized profits for Executives and Shareholders (M) To sell more solutions per customer (regardless of customer need) (C) Build creative new systems and strategies to increase their capacity (L) Low level employees learn to adapt to pressure cooker culture	Behavior that balances ethics and profit	(V) Trust in Financial System (and/or big banks that make it up) (M) Sell customer value again and again (C) Various explicit systems that facilitate and incentivize customer value/satisfaction, etc. (L) Targeted-learning to improve systems

Table 1. Wells Fargo's Implicit and Explicit VMCL

When managers are aware of the simple rules of VMCL operating within their organization, they can leverage them to realize system behaviors they *want* to see (e.g., behaviors that balance ethics and profit). They also can use them to see more and sooner what is going on so that the necessary corrections can take place. In this case, instead of maximizing profits for shareholders and executives, Wells Fargo's customer-focused vision should have been structured around the company's desired future state. To achieve the company's vision, the Wells Fargo sales team did not need to sell customers *more* products, but instead to sell customers more *value*, again and again (i.e., the Mission). The executive team needed to work with sales to develop explicit capacital systems to accomplish this mission, and associated targeted-learning to improve upon these systems. In this way leaders could have used complexity to the advantage of the corporation (their fiduciary responsibility) rather than using complexity as a smoke-bomb to occlude their maleficent shenanigans.

2. Questions to consider

- Was the cross-selling 'scandal' an example of a failure or a success of organizational Vision?
- How can a POSIWID analysis help you to develop a deep understanding of your organizational Vision? (i.e., as an internal leader)

- How can a POSIWID analysis help you to develop a deep understanding of an existing organization's Vision? (i.e., as an external consultant)
- When the organizational Vision is ambiguous or conflicting, how can identifying the repeating behavior of the agents (e.g., actual Mission) tell you something about the Vision?
- How does the mental model—shared by some number of employees—affect the Vision? Mission? How long does it take to build such a mental model? In what ways would you go about building such a mental model?

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