Ethical Issues in Business

**Company Background**

Wells Fargo was started in 1852 by Henry Wells and William Fargo with the aim of providing express services to California for all different items (The West rides again at Wells Fargo, 1989). The company was established as a joint stock company and had. The company’s office was established in San Francisco in July 1852 where Edwin Morgan was appointed as the first president of Wells Fargo (Wells Fargo, n.d). During the early stages Wells Fargo’s president faced the challenge of establishing the company in two different fields that comprised of fast growth and even faster change that was unpredictable. During the 1850s, the state of California had no rules regulating banking or express industry leaving the two fields open. Lack of regulations posed a lot of challenges to Wells Fargo if a person had a wagon with horses could start an express company while a person with a safe and a room to keep it would have opened a bank. Wells Fargo entered the California market relatively late compared to other companies hence faced competition for banking and express services from well established companies.

The company engaged in purchase, sale and transportation of bullion, gold dust, specie and at the same time handled express freight services between the states of New York and California. Wells Fargo’s banking and express services established in communities bordering gold mines, while at the same time it created reliable freight and messenger routes across California. The company expanded and began doing business with the overland routes from Missouri, Midwest, Rockies and Far West of the United States (Wells Fargo, n.d). In 1866, Wells Fargo consolidated almost the entire Western stagecoach under its name that is when it became know as the company with the largest stagecoaches in the world. The company gained a national reputation for stage coaching as its agents and messengers delivered express services regardless of the obstacles they faced and their professional conduct to remain loyal to clients.

During the 20th century the company merged with several other companies in order to improve its market share. Wells Fargo in 1905 separated banking services in California from express services and merged them with Nevada National Bank forming a new company named Wells Fargo Nevada National bank. To establish Wells Fargo Bank &Union Trust Co. In 1969, Wells Fargo acquired all the shares of Wells Fargo Bank hence becoming a holding company named Wells Fargo and Company. In early 21st century, Wells Fargo Bank acquired many retail branches which in return had made it become one of the largest in the United States. The bank currently provide services such as banking, insurance, financial management, auto loans, credit cards and mortgages (Wells Fargo, n.d). The company has also established itself international markets through affiliates, retail branches and subsidiaries. In 2016, Wells Fargo scandal emerged where the company’s employees opened fake customer accounts based on pre-existing information.

# **Crisis Details**

Wells Fargo experienced a crisis when a case was filed against it for fraudulent accounts. The lawsuit alleged Wells Fargo of creating and opening of additional fake bank accounts based on the pre-existing customer information and data between 2011 and 2016. The company employees breached privacy of their customer information by signing up 2 million customers’ accounts. Employees created over 2 million created cards and imposed fees that customers were not aware of. It emerged that employees were instructed by the upper management to whatever they could to ensure the company meet monthly sales quotas (Cavico, & Mujtaba, 2017). They were even threatened that they would lose their jobs if they did not meet their monthly targets and this forced employees to commit bank fraud to save their jobs. Employees transferred money from authorized accounts to fake and unauthorized accounts hence charging customers with more account fees. Some employees also forged customer signatures order to open more accounts. The company employees breached customers’ privacy by accessing their private information such as personal information, social security numbers, driving license numbers among others from customers’ accounts.

The stakeholders involved in this crisis include the employees of Wells Fargo that committed banking fraud by opening fake accounts based of pre-existing customer information. These employees violated the privacy of the customer by accessing their private and information and opening fake accounts that attracted extra charges for customers with authorized accounts. Customers are other stakeholders that were affected by the ethical crisis as their private information was accessed and used to open fake accounts and credit cards (Cavico, & Mujtaba, 2017). Others affected were the stockholders as they lost a lot of money following lawsuits filed against Wells Fargo And Company for fraud. Stock holders lost money for paying the lawsuits and paying fines that was imposed on the company due fraudulent activities by its employees.

**Ethical Issues and the Law**

The bank management violated banking ethics by ordering employees to whatever they could to meet their monthly sales quotas or risk being fired. They encouraged their junior employees to open fake accounts using pre-existing customer information knowing that this was a violation of banking ethics and could attract legal action for accessing and using customers’ private information to open fraudulent accounts (Cavico, & Mujtaba, 2017). The company sales tactics were questionable as the upper management allowed employees to use customers’ information, fake ids and forged signatures to open more accounts in order to meet monthly sales target. The ethical meltdown of the principle that were supposed to be within Wells Fargo caused down falls with customers and example of the ethics are, “We strive to be recognized by our stakeholders as setting the standard among the world’s greatest companies for integrity and principled performance (Cavico & Mujtaba, 2017).” This practice caused the bank to lose money through legal battles and the fine of more than 185 million dollars that it was ordered to pay for fraudulent activities. The management failed to act when “whistle blowers” reported about the opening of authorized accounts that was being done employees, and later the whistle blowers were let go. The scandal has left customers not knowing where to stand with Wells Fargo and whether they can trust the bank like they did once before. Wells Fargo has had to change the way they handle sales with in the company to make sure they will not go through the scandal once again.

References

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