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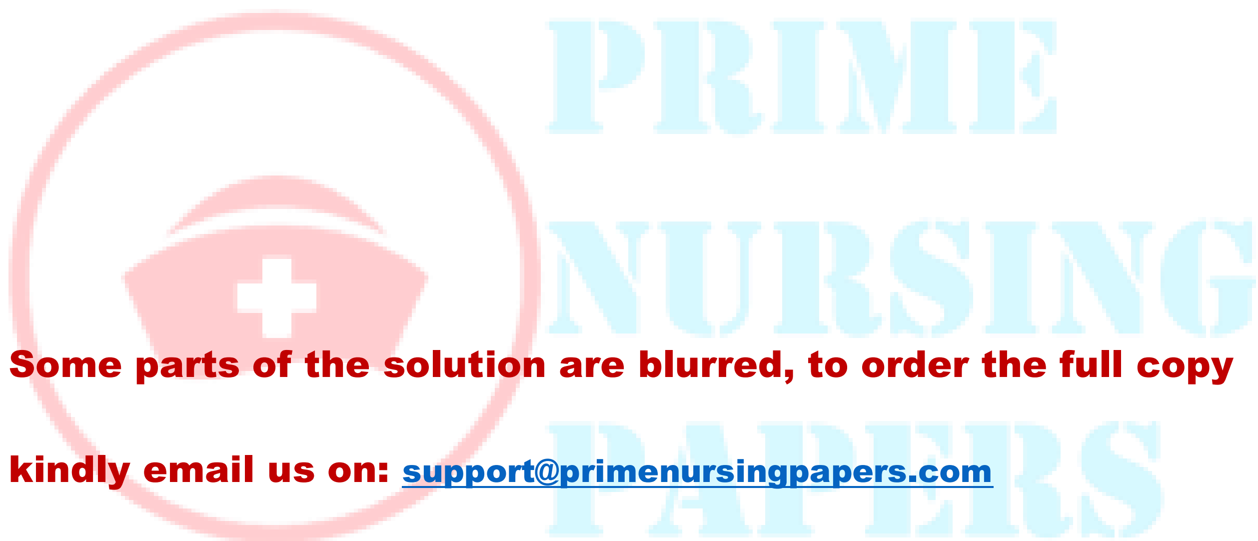
Crisis Communication Case Analysis: Wells Fargo Scandal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In today's global market, it is common to hear or read about organizational crisis cases in diverse industries including banking and finance, transport, social media, communications, and computer technology amongst others. Ulmer et al. (2017) posits that an organizational crisis is "a specific, unexpected, and non-routine event or series of events that create high levels of uncertainty and simultaneously present an organization with both opportunities for and threats to its high-priority goals." It is crucial for every organization to develop an effective crisis management and communication strategy to gain customer credibility and trust for successful business operations. Wells Fargo, a multinational bank with its headquarters in San Francisco, California faced a crisis in September 2016 involving creation of false accounts by Wells Fargo staff. According to an article published in *The New York Times*, the false account scandal and falsified signatures was a result of overwhelming pressures for the retail employees to meet sales goals (Cowley, 2017). The article revealed that the employees opened more than two million false accounts without the knowledge of the customers. In September 2016, the Consumer Financial Protection Bureau (CFCB) announced that Wells Fargo was to pay $100 million fine for "widespread illegal practice of secretly opening unauthorized deposit and credit card accounts since 2011." With the platform of the crisis, the bank faced criticisms from the media, politicians, the public, lawmakers, and former employees. The harsh critics led to questioning and congressional hearing of the then CEO-John Stumpf, who was eventually forced to resign (Cowley,2016).

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The scandal affected not only the organization but also the employees, customers, investors, and several stakeholders who depended on the organization. Since the news of the scandal broke publicly, Wells Fargo stock market value decreased by $28 million. The scandal creating more alarming challenges for the future as indicated by declining number of customer's opening checking accounts and applying for credit card accounts (Glazer, 2017). Moreover, the customer and teller interactions with the bankers declined by 40%. The consumers we largely affected keeping in mind that most of the accounts fraudulently opened incurred fees hence the customer credit scores were hurt without their consent. Additionally, the opening of the bank accounts mandated the customers to authorize a private arbitration with the bank, hence they could not pursue any legal actions against Wells Fargo after the scandal (Levine, 2016). Employees

worked under pressure and forcing to violate ethical codes to meet the aggressive sales goals and receive incentives as promised by the corporate management. West and Craddock (2018) report that employees who raised an alarm by claiming that the sales goals were promoted unethical conduct were terminated. Former Well Fargo employees faced challenges in gaining employment from other financial institutions. Indeed, the company failed its employees, the customers, and several stakeholders which tarnished the bank's reputation and loss of public trust and credibility.

Wells Fargo used corporate apologia theoretical approach to respond to the crisis. As quoted by Ulmer et al. (2017), Hearit defines apologia as "a response to criticism that seeks to present a compelling competing account of organizational accusations." The organization at first denied the allegations and the top executives were defensive for the actions. Stumpf reacted to the criticisms by apologizing about the scandal while denying allegations that he was aware of the fraudulent cycle (Blake, 2017). Accordingly, the response was a corporate apologia on the basis that it was triggered by charges and criticisms spread by the media, analysts, politicians, and lawmakers who contended that Wells Fargo was guilty of fraudulent creation of accounts without clients' consent.

Before the news broke, the executives lead by Stumpf had received letters pointing out the unethical conduct and adverse damages of creating fake accounts. However, the executive responded to the crisis by terminating employees who reported the issue. Besides, Stumpf denied that he was aware of the fraudulent sales practices. Moreover, his unethical leadership practice caused him to deny that he was involved in establishing the compensation for executives despite

the evidence that he was aware of the scandal. When the news broke, the bank objected that the problem was not an intentional sales strategy (Cowley, 2016). Wells Fargo failed at advocacy by denying the truth about the executive's awareness of the fraudulent sales practices. Moreover, they failed at firing employees who sought to reveal the unethical practices. The professional core value statement of The Public Relations Society of America (PRSA) emphasizes on the values of advocacy, expertise, honesty, fairness, loyalty, and independence to guide public relations in organizations ("Code of Ethics - Public Relations Society of America", n.d.). The company failed to uphold the ethical code of conducts by terminating employees who attempted to solve the fraudulent creation of accounts.

Additionally, the organization failed at denying corporates knowledge of the fraudulent cycle and making excuses for the unethical behavior. Later the company responded to the accusations following the lawsuits and investigations filed by Los Angeles city attorney. Wells Fargo officials denied the complaint allegations and asserted that they would vigorously defend against the misinterpretations about the organization and its employees whose careers are founded in doing the right thing to customers"(Blake, 2017). Wells Fargo used an excuse approach to respond to the crisis by blaming the employees for fraudulent actions rather than blaming the aggressive sales goals (Wilcox et al., 2013). Wells Fargo went further to publish press releases to

strategic persuasion. The public relations team could have helped accomplish corporate responsibility by persuading the public to regain the trust and credibility. The team would inform the public that Wells Fargo is handling the issues and show their openness to sharing information and prevent spreading incorrect information about the crisis. Moreover, the company should have ensured transparency in all communication to both the customers, employees, and the stakeholders. Wells Fargo could have ensured they stick to their word as displayed in campaign messages through social media and television ads. In developing the campaign messages, Wells Fargo should have followed the guidelines for successful crisis communication messages as articulated in *Thinking Public Relations*. Wilcox et al. (2013) states that "a message must be received by the intended audience, it must get the audience's attention, it must be understood, it must be remembered and it must be acted upon." Sharing the business operation details with the public would enforce accountability and rebuild a credible organizational image. With dedication and patience, the company should have restructured the management structure and make improvements to rebuild equity with the public.

To avoid the crisis the officials ought to have responded to the complaints by employees regarding the scandal. According to the PRSA code of ethics, all employees are expected to act in the best interests of the client and get customer consent before using their personal information to

avoid comprising good business relations and trust ("Code of Ethics - Public Relations Society of America", n.d.). The company should have imposed strict rules to any staff member that violates the ethical codes by engaging in fraudulent activity. Wells Fargo was aware of the fraudulent actions within the organization but choose no actions to curb the problem. The company should have trained the employees on ethical practices and how to solve ethical conflicts. The employees could be trained on the importance of customer services and business reputation above the greed for achieving sales goals to enjoy the incentives.

Crisis and scandals in both large and small organizations require thoughtful and ethical communication strategy that displays transparency. It is crucial that executives lead by example by creating messages that validate the transparency of the organization and its efforts to make improvements and resolve similar crisis in the future. Top executives play a greater role in rebuilding trust to the stakeholders by admitting that a mistake has occurred and necessary actions are being implemented to contain the crisis. The public requires to hear from leaders that they are implementing plans to resolve the crisis to help change the perception of the public and rebuild equity and trust. The recent ‘Pre-Established” brand campaign shows the progress the company is making to transform the organization and rebuild trust with team members, stakeholders and customers. Wells Fargo needs to restructure its traditional management culture through words and action to regain its reputation as a socially responsible financial institution.

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