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How can Wells Fargo's board move forward?

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Cross-selling scandal demands strategic response

Wells Fargo's current scandal threatens to topple the giant. The headlines have been just short of horrific: excessive cross-selling to customers, roughly 2 million sham deposit and credit card accounts that employees (driven by incentives) arranged for customers who didn't need, understand or ask for them.

The Consumer Financial Protection Bureau hit the bank with a record $185 million penalty for its sales practices. Outcries from Democrats Elizabeth Warren, Hillary Clinton and many others put pressure on the bank to make the top guns accountable, not just low-level employees. Published reports suggest CEO John Stumpf will forfeit much of this year's salary, including his bonus and $41 million in stock awards as the bank investigates the fake accounts scandal. Heads are already rolling: Carrie Tolstedt, who was in charge of the division that created the fake accounts, recently left the company. She was reportedly planning to retire at year-end but has already gone and will not receive a bonus.

Squarely in the middle of the fiasco is Wells Fargo's corporate board. Inquiring minds want to know where said board was when all this was happening and what it now plans to do. Corporate governance experts so far are giving the board a failing grade; there is no shortage of opinion about its performance and what it should do.

'The board is doing a terrible job, as it has been doing the last couple of years,' says Nell Minow, vice chair of ValueEdge Advisors. 'Somebody approved this stupid compensation scheme. The board hasn't been transparent. It wasn't until Warren came down on the bank that it announced clawbacks.'

Teresa Goody, an attorney and lecturer on corporate governance at Georgetown's McDonough School of Business, says, 'Rather than leading the company through this, [the board's] actions are generally responses to others, such as Congressional inquiries and pressures. The check-the-box mentality that allowed this kind of massive fraud to occur is the same mentality and approach the board is taking with this crisis. And it is a crisis!'

But what's done is done – so how best to move forward? There are many questions that need answering here. 'What is the tone of the place where the thinking is that these actions are okay?' asks Charles Elson, director of the John L Weinberg Center for Corporate Governance at the University of Delaware. 'The challenge will be how to reconstruct the culture. Wells Fargo will need to redesign its compliance and reporting structure. It has a large board and a couple of [the directors] have been there a long time. One has to wonder whether the board has the expertise it needs.'

A crisis of this magnitude needs a strategic response – layoffs and firings are a necessary tactical responses, but a long-term solution including a 'customer bill of rights' is also needed, says James Gregory, chairman of Tenet Partners. The strategic solution needs to be communicated to every key constituency including Wall Street, government regulators, employees from the CEO to the bank teller, and most of all to loyal Wells Fargo customers.

An advertising and public relations campaign focused on the customer bill of rights should be launched as soon as possible and should continue for at least three years, or until the crisis is past. Gregory says the bank should focus on improving the customer experience over the next five years. Independent research should be conducted to evaluate progress toward this goal. Every employee must be held accountable to achieve specific improvements in the customer experience.

It's not only the CEO and other employees who should be shown the front door, however. 'Replace the folks on the risk and compensation committees,' says Minow. 'The board should ask shareholders who they want on the board, and what criteria should be used. Typically, shareholders will request that a search firm be used.'

The board's investigation should be tough and thorough. 'It should demand answers from management on how the situation arose, investigate the root causes, assess accountability and take decisive action where appropriate, press management for a plan on how to rebuild the company's trust with its customers and suppliers and its credibility with the government and investors, and track management's progress on remediating its controls and procedures to prevent this from happening again,' recommends Douglas Chia, executive director of the Conference Board.

Once the dust settles, what will remain of Wells Fargo? Gregory is optimistic. 'The Wells Fargo corporate brand is quite strong and will recover,' he predicts. 'As brand consultants we find this type of crisis generally takes three years to full recovery unless the crisis is prolonged by further government inquiries and/or if the bank continues to remain in the news for negative reasons. Also, as a general observation, the more responsive Wells Fargo is to the crisis, the shorter the duration of the damage caused to its reputation.'