03 / ALIGNING INTERESTS

Wells Fargo

What the scorecard rewarded

How do you make genuine customer value the condition for growth?



Wells Fargo branch, 2017. Photograph: MiosotisJade.
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A governance decision about consent, incentives, escalation and rebuilding trust.

The board and retail banking leadership | September 2016

35-45 minutes to prepare / 75 minutes to discuss
Original public-source teaching case • First member edition • 1 November 2026

PRINCIPLED BUSINESS IN PRACTICE

Introduction

About Principled Business

Principled Business (PB) is a nonprofit organization that brings together business leaders to advance capitalism through education, relationships and action. It helps founders, executives and investors understand free enterprise, apply its principles in their organizations, and explain the contribution business makes to people's lives.

The PB manifesto grounds capitalism in individual agency, private ownership and voluntary production and trade. These commitments take practical form in everyday business decisions.

Aligning interests

The manifesto calls on business leaders to embody aligned interests, alongside respect, value creation and collaboration. Wells Fargo is a cautionary case about what happens when business incentives become disconnected from customers' choices. Reported sales can rise while customers receive products they did not authorize. The case asks you to design a response that protects customers and makes commercial rewards depend on evidence of consent and useful service. It also requires attention to the responsibilities of executives, supervisors and control functions.

PB presents this case because applying capitalism's principles includes recognizing and correcting their violation. An incentive scheme must be judged by the conduct it encourages. A principled response connects the interests of customers, employees and owners through verifiable service, accountable leadership and credible ways to report problems.

What you will learn

01 Distinguish sales volume from authorized transactions and sustained customer value.

02 Test how a reward rule can encourage useful service, manipulation or concealment.

03 Design customer protections, independent checks and management accountability for a staged reform.

> **Apply it to your own business**
> Choose a target that affects pay or promotion in your organization. Could someone improve it while harming a customer? What evidence and reporting protection would expose that behavior?

Source: About Principled Business; Capitalists for Capitalism Manifesto, Section 4: Be the best representatives.

NOTES FOR STUDENTS AND TEACHERS

Using this case study

This packet contains the case, exhibits, worksheet, sources, answers and teaching notes. Allow 35-45 minutes to prepare and 75 minutes for discussion. Have a calculator or spreadsheet available.

Pages	What to use and when
4-8	Decision, evidence, exercise and alternatives. Read before discussion.
9	Decision worksheet. Complete before reading the answers.
10	Sources and reading notes. Check the evidence and its limits.
11-12	Worked answers, outcome and teaching plan. Students: read after deciding.

For students

Read the case once to identify the decision, then work through the exhibits. Separate reported historical facts from the explicitly invented exercise. Use the information available at the case date; record assumptions when the evidence is incomplete. Complete the calculation and the worksheet on page 9. Be ready to defend your choice and name the evidence that could change it.

For individual study, write your recommendation before turning to pages 11-12. Compare your reasoning with the worked analysis, then add a short reflection on what you would retain or change. Choose one action to try in your own business.

For teachers and discussion leaders

Read the full packet and the timed plan on page 12 before teaching. You can assign pages 1-10 initially, revealing the final two pages after students commit to a recommendation. Begin with a choice or vote; record the alternatives and supporting evidence on the board.

Treat customer authorization as a requirement throughout the discussion. Challenge students to explain how their replacement scorecard could be manipulated and how leaders would discover it.

> **How to assess the work**
> Look for a clear recommendation, accurate analysis with stated assumptions, attention to affected people, a fair treatment of the strongest objection, and an implementation plan with an owner and review point. Assess the reasoning rather than agreement with the historical decision.

9 SEPTEMBER 2016 • AFTER THE ENFORCEMENT ANNOUNCEMENTS

The decision

The board and retail banking leadership of Wells Fargo needed a response that would change conduct, not merely the description of conduct. On 8 September 2016, regulators announced action over accounts and services provided without customers' authorization. For this case, adopt the position of a director deciding what operating changes to require the next morning. This is a teaching reconstruction, not a record of a particular board meeting.

The CFPB connected the practices to sales targets, compensation incentives and inadequate monitoring. Its announcement referred to the bank's analysis of more than two million deposit and credit-card accounts that might not have been authorized. It announced a $100 million penalty, alongside $35 million from the OCC and $50 million from Los Angeles. These are contemporaneous estimates and penalties, not a final lifetime total of affected accounts or costs. [W1]

The task is not to debate whether unauthorized accounts are acceptable. They are not. The management decision is how to stop the conduct, find and remedy harm, preserve legitimate service and make future claims of progress credible. A reassuring public statement cannot substitute for a control that works when no one is watching.

What must change first?

Three plausible responses differ in emphasis: retain sales-linked incentives with stronger verification; suspend product-volume incentives while rebuilding controls; or move quickly to a broader relationship scorecard with independently verified customer outcomes. All must respect consent and comply with the applicable orders. A leader must choose the sequence, the evidence required for payment and the authority that can stop a sale.

> **Your mandate**
> Present a 90-day plan covering customer protection, employee incentives, escalation and board oversight. Name the evidence that would let you say the changes are working.

Read through page 8 and complete the board mandate on page 9. The worked answers and historical outcome are on pages 11-12; read them after committing to your recommendation.

THE MANAGEMENT PROBLEM

When a measure becomes a target

A bank can legitimately offer additional services to an existing customer. The problem begins when a count of products becomes a substitute for evidence of customer need and authorization. An opened account is easy to count. Whether the customer understood it, wanted it and received value is harder to establish.

The missing link is consent

The 2016 consent order described unauthorized deposit accounts, credit-card applications, debit cards and online-banking enrollment. Wells Fargo agreed to the order without admitting or denying its findings, apart from the facts needed for jurisdiction. The order required an independent review, including consent evidence and the consistency of performance management with preventing improper practices. [W2]

An incentive can reward an event that looks commercially useful while bypassing the condition that makes it legitimate. A signature field, activation count or low complaint rate is not necessarily decisive. A control designer must ask how the evidence is generated, who can alter it and what independent check could reveal a false appearance of success.

Employee behavior and management responsibility

Removing an individual employee after a violation may be necessary; it does not establish that the system is sound. If multiple teams face similar pressure and similar opportunities to manipulate a measure, the board needs evidence about supervision, promotion, workload, training and how concerns are escalated. These are analytical questions, not findings about what any particular director knew on the case date.

The bank’s own 8 September statement said the agreements totaled $185 million plus $5 million in customer remediation. [W4] The OCC separately ordered restitution for customers harmed by the unsafe or unsound practices. [W3] Remedying harm is therefore a distinct workstream, not merely a deduction from next quarter’s incentive budget.

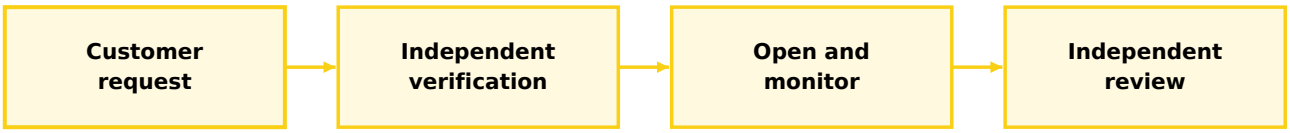
> **A control can create a new distortion**
> If complaints reduce pay mechanically, people may learn to suppress complaints. If active accounts earn rewards, people may manufacture activity. Any replacement measure needs a way to detect its own misuse.

EXHIBIT 1 • EVIDENCE AND RESPONSE DESIGN

Separate the questions

Evidence available at the case date	Management question it raises
Regulator findings linked sales incentives and unauthorized products. [W1]	Which paid event can occur without verified customer intent?
The order required examination of consent records and performance management. [W2]	Who verifies authorization independently of the seller?
The OCC required customer restitution. [W3]	How will harmed customers be found and made whole?
The bank had publicly acknowledged settlement and remediation amounts. [W4]	What would substantiate improvement beyond announcing a financial charge?

A proposed control sequence



PB design, not a diagram of Wells Fargo's actual process. Each transition requires a named owner and auditable evidence. A failed authorization check should stop progression; a complaint must remain reportable even if it affects performance measures.

Distinguish three types of evidence

Customer evidence: what the customer requested and confirmed.
Operational evidence: what the system actually opened, charged or transferred.
Management evidence: what supervisors and the board reviewed and acted on.

Ask whether the three records can be reconciled without relying on the same person to create and approve them. An impressive dashboard built from unreliable source records can make oversight less effective by supplying false confidence.

> **Keep the time boundary**
> Do not import the later independent board investigation into your 9 September diagnosis as if its conclusions were already established. You can, however, request an independent investigation.

EXHIBIT 2 • INVENTED INCENTIVE EXERCISE

Test a different scorecard

The teams and figures below are invented. They are not Wells Fargo branch data or actual compensation terms. Assume the teams serve comparable opportunities during one evaluation period. “Verified and active” means both independently confirmed authorization and genuine customer-initiated use after 90 days.

Measure	Team A	Team B
New accounts opened	1,000	800
Accounts with independently verified consent	970	800
Verified and active after 90 days	700	700
Customer complaints received	20	5
Confirmed unauthorized accounts	6	0

Compare two hypothetical rules

Rule 1: pay $10 per new account opened.
Rule 2: calculate $12 per verified-and-active account, but hold the team award if any unauthorized account is confirmed, pending independent review. A hold is not an automatic final forfeiture for every employee.

01 Calculate the provisional award for each team under each rule. What would be paid immediately under Rule 2?

02 What additional facts are needed before deciding individual responsibility and releasing, reducing or reallocating an award?

03 Does Rule 2 create a reason to hide violations? Design a reporting protection and a review process to counter that pressure.

A zero observed violation count is not proof of zero misconduct. Compare detection methods and sampling coverage before comparing teams. Similarly, raw complaint counts are not equivalent to confirmed harm; accessible reporting can initially make a healthier organization look worse.

> **The non-negotiable condition**
> Customer authorization is a requirement for legitimate business. It is not a low-weight scorecard item that excellent sales can offset.

ALTERNATIVES AND ACCOUNTABILITY

Choose the sequence of reform

Policy emphasis	Benefit	Risk to address
Retain sales-linked rewards with verified consent	Preserves a familiar commercial signal.	May preserve pressure and invite manipulation of verification.
Suspend volume rewards while controls are rebuilt	Creates time to protect customers and inspect the system.	Can leave unclear expectations or unmanaged informal targets.
Introduce broader relationship measures	Connects rewards to sustained use and service.	Creates more metrics to game unless evidence and oversight improve.

These are not mutually exclusive across time. A phased recommendation can suspend one reward immediately and pilot a better system later. But it must state what remains prohibited, what employees should do instead, and what conditions permit a wider rollout.

Build a plan the board can challenge

01 First 72 hours: which practices or payments pause, who protects customers, and how do concerns reach an independent reviewer?

02 First 30 days: what evidence is preserved, how are affected customers identified, and who reviews the response outside the sales chain?

03 By day 90: what must be true before revised incentives expand? Specify tests of consent, complaint handling and manager behavior.

04 How will executives and supervisors be evaluated alongside frontline staff? What evidence warrants escalation to the board?

Do not promise that a new scorecard alone will restore trust. Members of the organization need credible protection when they identify problems, customers need accessible remedies, and the board needs information that the sales organization cannot selectively filter.

> **Decision required**
> Choose an immediate policy and a staged replacement. Explain what it rewards, what disqualifies a transaction and who can challenge the evidence without retaliation.

COMPLETE BEFORE READING THE TEACHING NOTES

Your board mandate

Immediate customer protections and prohibited practices

The incentive rule and the evidence required before payment

Independent review, reporting protection and escalation

Day 30 and day 90 measures, with accountable owners

Bring it back to your business

Choose one metric that affects pay, promotion or status. Describe how someone could improve that number while harming the customer. Then design one independent observation that would reveal the problem before the metric reaches the board.

Our most vulnerable metric and the check we will add

EVIDENCE REGISTER

Sources and reading notes

W1 CFPB, enforcement announcement, 8 September 2016

Regulator account of the conduct, incentives and penalties; estimates are those reported at that date.

Open source document →

W2 CFPB, Consent Order 2016-CFPB-0015

Filed 8 September 2016. Findings, stipulation, independent review and redress provisions.

Open source document →

W3 OCC, News Release 2016-106

8 September 2016: penalty and restitution order.

Open source document →

W4 Wells Fargo, company response, 8 September 2016

The bank’s statement on its agreements related to sales practices.

Open source document →

How this case was prepared

An original PB teaching case based on public records available at the decision date. Regulator findings and the company’s response are attributed separately. The discussion alternatives, process diagram, team data and compensation formulas are PB teaching constructions; they are not descriptions of the bank’s actual compensation system.

The teaching notes on page 12 cover subsequent actions and the 2017 independent directors’ report. This is a historical management exercise, not a statement of current banking requirements or an endorsement of a compensation policy. Research checked 1 November 2026. No company approval or Harvard affiliation is implied.

> **Continue learning with Principled Business**
> Read the manifesto and explore member programs at principledbusiness.org. Ask whether the behaviors your organization rewards create value through genuinely voluntary exchange.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Worked analysis

Invented rule	Team A	Team B
Rule 1: $10 per opened account	$10,000	$8,000
Rule 2: $12 per verified-and-active account	$8,400 provisional	$8,400 provisional
Rule 2: payment after stated gate	$0 pending review	$8,400 if other checks pass

Both teams have 700 verified-and-active accounts. Team A's six confirmed unauthorized accounts trigger the hold. The 30 accounts without independent verification are not automatically 30 proven unauthorized accounts; absence of verification and affirmative evidence of misconduct are different findings.

A gate is necessary but not sufficient

A team-wide hold can create pressure to conceal problems or blame a colleague who reports them. An improved design must protect reporting, distinguish individual responsibility, set a prompt review timetable and let an independent authority determine final treatment. The exercise is meant to expose that tension, not endorse collective punishment.

Team B's zero confirmed violations also requires scrutiny. How were cases detected? Was the sample representative? Could customers report a concern easily? A low count can reflect low harm, weak detection or both. Rewarding the raw count alone risks reducing visibility rather than misconduct.

What a strong board mandate contains

A strong mandate identifies customer protections, independent evidence, incentive redesign and a protected escalation route. Assign an owner and a review deadline to each. Evaluate executive and supervisory responsibility alongside frontline conduct.

The choice between a temporary suspension and an immediate replacement depends on whether trustworthy verification is ready. A sensible phased answer may suspend volume rewards, establish independent controls and pilot a relationship-based system before expanding. The case cannot establish the correct compensation level or today's legal requirements.

> **Common mistake**
> Assuming that removing a bonus removes pressure. Targets, promotion, scheduling, status and fear of dismissal can shape conduct even when a particular commission disappears.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Outcome and teaching plan

On 29 September 2016, Wells Fargo announced it would accelerate the end of retail product sales goals from January 2017 to 1 October 2016. [W5] The independent directors' April 2017 report attributed the failures to distorted sales culture and performance management, leadership problems and control functions constrained by deference to the business units. [W6]

Those later findings broaden the diagnosis beyond individual misconduct. They do not mean that people using the case's 9 September information could know every finding in advance. Ask instead whether the early evidence warranted an investigation capable of discovering the wider system.

Minutes	Discussion and board plan
0-10	State the immediate board mandate; establish consent as a requirement.
10-25	Board left: distinguish sales, authorization and sustained use.
25-40	Board center: compute awards and challenge the hold rule.
40-55	Board right: evidence ownership, reporting protection and escalation.
55-65	Set 30- and 90-day milestones; identify executive accountability.
65-75	Reveal later findings; apply the reasoning to one internal metric.

The final challenge

Ask each participant to name one way their proposed system could be gamed and one independent check that would reveal it. Then ask what would make an employee believe that reporting a problem is safer than hiding it. A policy is only as credible as the response people expect when it is tested.

W5 Wells Fargo, 29 September 2016 update

Acceleration of the end of retail product sales goals.

Open source document →

W6 Independent Directors, 10 April 2017 report

Sales Practices Investigation Report; filed with the SEC. Principal Findings and Corporate Control Functions.

Open source document →