Corporate Governance and Its Determinants: A Study on Wells Fargo Scandal

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5 May 2019

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Abstract

Despite having the perfect board, Wells Fargo was hit with a scandal in 2016 as a result from its cross-selling tactics and intense pressure to its employee to achieve impossible targets. Due to its decentralized management, fake accounts were created without customer knowledge, sometimes forging their signatures. This study aims to investigate the impact of corporate governance index in relation to bankruptcy, firm value, company performance and macroeconomics. Multiple regression analysis is applied on the sample of five years of Wells Fargo data from the year 2014 to 2018. The findings shows that corporate governance index has been influenced and affected by internal factors specifically by return on asset (ROA). Moreover, there is a moderate significant relationship between corporate governance index and unemployment rate. The analysis further explained that ROA negatively influence CGI which supports the results from Wells Fargo decentralized management that led to the crisis of the firm.

Keywords: corporate governance index, return on asset (ROA), Wells Fargo Scandal

1.0 Introduction

Wells Fargo & Company is a diversified, community-based, $ 1.9 trillion asset-based financial services company. The vision of Wells Fargo is to fulfil the financial needs of its customers and help them to succeed financially. Furthermore, founded in 1852, Wells Fargo is headquartered in San Francisco, and provide consumer and commercial financial alongside varieties of services and products such as mortgage banking and investment. Due to its many branches, ATMs and offices in 37 countries and territories, it was ranked No.26 in the 2018 Fortune ranking of the biggest firms in America, serving as many as one third of households in the United States alone, estimating 262,000 employees.

According to Wells Fargo Corporate Governance Guidelines (2019), the firm has implemented guidelines on its corporate governance with the goal of providing an efficient framework for a better management for both the company and the board. The company has improved its corporate governance practices since Wells Fargo's major decline in its scandal in 2016. The Chairman's and CEO's offices have been separated presently. It was decided that the bylaws would be amended to ensure an independent will be elected as the chairman of the board which is currently positioned by Elizabeth A. Duke, a former member of the governors ' board of the Federal Reserve. A framework has been introduced for self - reviewing directors, assisted by a third party. Following Stumpf's resignation as CEO and Chairman of Wells Fargo, Timothy J. Sloan became the CEO of Wells Fargo (Veetikazhi & Gopinath, 2019).

Moreover, the by-laws also authorize the Board to elect the Board's committees, whereby the Governance and Nominating committee will review the board’s structure, nomination and chair positions annually and recommends that board members be assigned to different committees. Currently, the board has several committees consist of audit committee, nominating committee, corporate responsibility committee, HR committee, risk committee, credit committee and finance committee. Besides, the corporate governance guideline also highlight regarding the independence of the BOD. According to Wells Fargo Corporate Governance Guidelines (2019), the rules by New York Stock Exchange stipulate that the board must clearly and unambiguously establish that Director does not have a material engagement with Wells Fargo so that the directors are deemed independent.

Three years ago, Wells Fargo was hit by a scandal that had caused the company a major downturn until today, when the news of the fraud became widely known at the end of 2016. Wells Fargo admitted on 8 Sept. 2016 that it had created millions of accounts under its customer's name without permission. (Wolff-Mann, 2018). This indicate a serious corporate governance issue because it violates several principles of corporate governance, especially its reputation. According to Michael Volkov (2018), Wells Fargo started the genesis of the scandal years ago when Wells Fargo applied a controversial sales incentive program to its community bank. The program was based on the 'eight for one', which means each sales representative's goal was to register eight separate accounts for each customer, including individual retirement accounts, credit cards, deposit account certificates, and others.

Carrie Tolstedt, a former head of the community banking division fully supported by Stumpf, who was then CEO and Chairman of Wells Fargo, pursued such a cross-selling strategy. This indicates an infringement of corporate governance independence because an all-powerful chairman-cum-CEO clearly dominates. The bank's decentralized nature allows Tolstedt to have a complete freedom as due to the support given by CEO himself. Stumpf's long associations with Tolstedt may influenced his better judgment because when Tolstedt was criticized by the independent Director and Chair of the Risk Committee, Enrique Hernandez, Stumpf not only failed to recognize the glitches of her style of management but acclaimed her as America's best banker (Veetikazhi & Gopinath, 2019). The decentralized structure that violates the principle of openness, honesty and transparency of corporate governance is responsible for giving too much attention to managers in the department. According to Veetikazhi & Gopinath (2019), she rejected any attempt by other department officers, especially Corporate Risk Officer (CRO) Michael Loughlin, to intervene. Tolstedt began a corporate culture which is extreme in competition in order to improve sales performance, including daily score card preparation and monitoring in an hourly basis. Soon afterwards, the burden then became more excessive to the local managers and employees when the regional managers started pressuring them even more.

Carrie Tolstedt actions puts Stumpf on the edge as she influenced the former CEO to violate the principle of accountability as he does not do his best for the for the benefit of both board and shareholders. These approaches has led to the termination of 5,300 employees, approximately 1% of the workforce, alongside allegations that more than two million bank accounts or credit cards were opened or requested between May 2011 and July 2015 without the knowledge or permission of customers. (Blake, 2016). This indicate the lack of transparency on behalf of Wells Fargo to not only its stakeholders, but for the shareholders and apparently for the board of directors as well. Because, only then it had alerted the Board of such unethical practices happening when such news went public. According to Matt Egan (April, 2017), the board's report revealed the directors of Wells Fargo weren't warned by management up until the year 2014, even though there's an alerting risk regarding the sales practice issues because they had found that the audit committee received materials dated back in 2002 referring to the issue. In fact, because of the Board's breach of responsibility to take action, this has actually made things worse.

As a result, the number of new bank accounts opened has fallen. In November, new consumer inspection accounts fell by 41 percent compared to the same month in the previous year. Customer credit card applications decreased by almost half. Besides, Wells Fargo paid conduct fines up to $185 million, removed the sales targets in its branches, lost the power to employ and dismiss executives or board members without the approval from regulatory, and faced a. extreme negative advertising resulting from series of allegations that the bank punishes whistleblowers (Maxfield, 2016). The Labor Department ordered Wells Fargo to reemploy employees who were dismissed. Furthermore, Wells Fargo will pay $480 million as part of a class action settlement to a group of bank shareholders for allegedly acted out of dishonesty that had led to the fake account scandal. They were also ordered to pay the affected customers for $142 million fake account class action settlement and another for $150 million by the Los Angeles county (Lane, 2018).

Moreover, Wells Fargo faced more than a fine for its fake accounts scandal. In 2018, Federal Reserve decided to limit asset growth at America's third-largest bank until improved risk and governance. The order, which also called for a revamp of the board of directors has resulted in Monday's early trading bank reeling. Wells Fargo shares in Monday trading went 9 percent lower, wiping out most of their earnings over the past year. As for its top shareholder which is Berkshire Hathaway, the Fed-inspired stock slide meant its Wells Fargo holdings lost over $2.7 billion in value (Gara, 2018). In conclusion, it's a shock to the world about Wells Fargo scandal. Wells Fargo had a perfect board and a well-known CEO, with KPMG served as its auditor for more than 85 years. This study aims to investigate the impact of corporate governance index in relation to bankruptcy, firm value, company performance and macroeconomics.

Research Objectives

- To investigate the impact of corporate governance index on internal factors of Wells Fargo
- To investigate the impact of corporate governance index on external factors of Wells Fargo
- To investigate the impact of corporate governance index on internal factors and external factors of Wells Fargo

Research Questions

- Does the internal factors impact the corporate governance index of Wells Fargo?
- Does the external factors impacts the corporate governance index of Wells Fargo?
- Does the internal factors and external factors impact the corporate governance index of Wells Fargo?

2.0 Literature Review

2.1 Corporate Governance and scandals

Apparently, sound annual reports misled stakeholders in major corporate scandals, while later the facts revealed unethical management misconduct, fraudulent financial reporting, and auditing issues. Corporate governance was therefore designed to prevent and defeat fraudulent practices (Abid & Ahmed, 2014). According to the Securities and Exchange Commissions (2017), corporate governance is a structure and practice of the relationship in order to promote transparency and accountability of the board of directors in order to build confidence among investors. To raise capital and be a publicly listed company, such confidence is essential. The fundamental reason for the failure of regulating corporate governance is that it was based on a compliance approach to box ticking. This encourages companies using their creativity in HNTGC – How Not To Get Caught. Human ingenuity is so powerful that there are always excuses for people to beat the system. A sustainability strategy, therefore, applies a fundamental approach to corporate governance to make sure that those in power accountable. Accountability is therefore a pillars to corporate governance (Raut, 2014).

According to Ana Paula Paulino da Costa (2016), the quality of the financial statements and the role of auditors and accountants had been widely doubted for years, especially after big scandals occurred such as Enron and WorldCom, thus became the central point in the issue of corporate governance. The capacity to develop an effective CG model is a fundamental requirement for developing an advanced economic system capable of generating a long-term value in a transparent and effective manner. (Borgia, 2005). Moreover, according to Veronica Nyatichi (2016), in recent times, the independence of the supervisory board was being doubted due to the huge cases of corporate scandals occurred. Combs et al. acknowledged that in practice, the outside directors are mostly depended on the executive, resulted in their independence to weaken because the risk of being manipulated by the executives are high (Combs, Ketchen Jr, Perryman, & Donahue, 2007).

According to agency theory, CEOs are subject to act on behalf of its own interest, risk averse, and possess goals that deviate from its shareholders. Thus, if an opportunity is given, CEOs will engage in an egoistic actions on the shareholders expense. As a result, shareholders will endure more cost in monitoring CEOs by strengthening the board of directors and offering them more incentives to act in the best interest of its shareholders. Therefore, firms with greater independence will have better firm performance (Nyatichi, 2016). However, Jensen and Meckling (1976) argued that, since it is the Board's obligation to monitor the performance of the CEO and other executive directors, having a CEO duality would result in an inefficient and opportunistic behaviour, resulting in a transaction cost problem. This is supported by Lakshana and Wijekoon (2012), their findings state that the dual role is positively related to the likelihood of corporate failure. Rhoades et al. (2001) supports that allowing the same individual to work both as CEO and Chairman will create conflict of interest because of the nature of the two responsibility and roles in both position.

Lastly, a good corporate governance structure might not indicate that a company is implementing an effective corporate governance practices. According to Nick Lin-Hi and Igor Blumberg (2011), there is a link between conflict that could be resulted in the relationship between the firm's short-term and long-term interest, and a good corporate governance. Research shows that a good corporate governance may not be enough to ensure long - term corporate success. Corporations are expected to be successful in making sure a long - term triumph if institutions ' relevance and modus operandi are taken into consideration by managers and the board of directors or committees.

2.2 Corporate Governance and bankruptcy or Altman Z

Bankruptcy was described as a ' protracted decline process ' and a ' downward spiral ' process. There is empirical evidence that fully five years before filing itself provides discriminatory power for bankrupt / survivor firms. (Daily & Dalton, 1994). According to Ali F. Darrat et, al. (2014), researchers argue that governance effects are not consistent in all companies and a universal governance practices can be ineffective. The results show that poor corporate governance gives an early sign of bankruptcy. By having more executive directors, the bankruptcy is high likely to occur when the board composition is less diversified, CEO has more influence, and when management teams with unfortunate performance remains in place.

Furthermore, a study of the relationship between corporate governance characteristics and bankruptcy using survival analysis shows that a significant relationship exists between the replacement of CEOs and bankruptcy. This supports lawmakers in corporate governance that CEO influences the board as a source of executive power. Furthermore, the act of replacing CEO weakens the organizational spirit and increases the uncertainty and conflict. This is indeed an early warning of the potential financial crisis (Mokarami & Motefares, 2014). According to Chana et. al (2015), executives with the high risk of self-interest could lead to a higher likehood of filing for bankruptcy. Poor corporate governance mechanism can lead to entrenchment of executives, increasing more risk to bankruptcy. Another research shows that a good corporate governance of a poor performed board significantly affects its likehood of bankruptcy. A smaller and more independent board are more effective to avoid corporate failure once the signs have showed. These results matches the beliefs that an effective governance structure can enhance the financial accounting models in predicting bankruptcy thus, successfully avoiding it (Fich & Slezak, 2007)

2.3 Corporate Governance and Performance

The firms that followed best corporate governance practices are expected to perform well. It is widely understood that structures of corporate governance influence financial performance of corporations. (Alabede, 2016). He also states that operating performance reflects the immediate influence of numerous factors, comprising of management efficiency and the achievement of the Board's oversight and advisory role, and remains the traditional corporate performance indicator. The board composition's quality therefore has a major impact on corporate performance. According to Lakshana and Wijekoon (2012), outsiders are perceived in independence, and for that reason, fair that will result in company's benefit in terms of demonstrating alternative perspectives and refining the expertise of directors as a whole. Supported by the research's findings, the non-executive director ratio, and the involvement of the audit committee and the remuneration committee have a negative corporate failure relationship. Board size, opinion of the auditor and external ownership seem to be unrelated to the status of the failure. CEO duality, however, is positively linked to the probability of corporate disaster.

According to Priyanka Aggarwal (2013), corporate governance and financial performance of corporations are correlated and the company's governance rating has a significant positive impact on its financial performance. Governance components such as separation of CEO duality, directors ' financial expertise, number of board meetings, the role of external auditors and board committees have a significant impact on financial performance. The findings was also supported by AA Azeez (2015), indicate that the separation of CEO duality has a significant positive relationship with the firm performance. This is due to the principles of a good corporate governance that highlighted the fact. By doing so, it can eliminate the unlimited power over one individual and improve the company's performance.

Finally, the findings of Mohamed Saleh Darweesh (2015) discovered that corporate governance has a significant role in refining firm performance. The findings showed that leaders should think through the best and strong governance in the presence of a larger board size (for healthier management oversight, access to further resources and monetary resources, and more knowledgeable members), excessive executive pay, less number of board committees so that it can improve company's financial performance. Also, independence of a board promotes efficiency and effectiveness of the firm's internal control.

2.4 Corporate Governance and Tobin's Q

The Tobin Q ratio measures a company's market value to its asset replacement value. In other words, it is a means of estimating whether a given business or market is overvalued or undervalued. According to Ayda Farhan et. al (2017), a high Q ratio indicates an effective governance mechanism. The research findings indicates that with an extra monitoring by regulation such as the MCCG, the board's independence could serve its performance due to members of the board work for the interest of the shareholders and not for the interest of themselves. Furthermore, board size enhances the company management experience, resulting in better firm value. (Farhan, Obaid, & Azlan, 2017). Similar to the findings of Y.T. Mak, Y. Kusnadi (2005), large board cost more remuneration cost to the firm which directly impact on firm value.

According to David Yermack (1996), small board of director is more effective. Using Tobin's Q, there is an inverse inverse relationship between the size of the board and the firm value. Small board companies also exhibit more favorable financial ratio values and provide robust incentives for CEO performance. Bernard S. Black et. al (2002), conclude that, an adequate development in corporate governance, predicts an increase in Tobin's Q. In contrast to other research, the researchers found a negative relationship between board independence and Tobin's Q (Black, Carvalho, & Gorga, 2009).

Consistent with Ferdinand Siagian et. al (2013) hypothesis, Researchers found that corporate governance is positively correlated to firm value and as such the findings are coherent with the various business value proxies. Healthier corporate governance companies tend to have greater value. They also find that size, growth and leverage are positively correlated to firm value, indicating that larger firms, firms with further prospects for investment or high growth, and firms with higher leverage are likely to experience an increase of values. This reveals that corporate governance gives shareholders benefits. It increases the value and board's independence alongside the firm's committees and offers the managers with more supervisory and internal control. The managers are indeed more interested in taking action which will increases firm value (Siagian, Siregar, & Rahadian, 2013).

2.5 Corporate Governance and Macroeconomics

According to Aviral Kumar Tiwari (2010), The necessary infrastructure shall be provided by law for a well - functioning business operation. And a system that doesn't have a law that talks about investor rights, either domestic or foreign investor motivation will be nearly negligible. Thus, an effective governance system in place serves an important indicator in economic performance because it will affect the returns on investments to firms. Tiwari (2010) Finds that corporate governance performance is significantly negatively related to economic development and therefore is important for not only the current year but also for the future. This supported Claessens (2003) findings, the factor to improved company performance through corporate governance is not based on a stronger corporate governance, and rather, it is either the other way around or due to whatever factors that drive both of them for the better. (Claessens, 2006).

According to Kaufmann and Kraay (2002), the per capita income shows a positive correlation with the efficiency and effectiveness of governance. A good causal effect is from healthier governance to per capita income. They also argued that countries could not merely grow into good governance; certainly, as countries grow, economic gains will be the best interest for those of power to take advantage of unless the right governance mechanism are in place. However, countries is not expected to grow out of an unfortunate institutions with survival motive (Brouwer, 2003). Nevertheless, Mehmet Ugur (2006) believe that there is no a priori reason to believe that a one-way process is caused by the quality of corporate governance and macroeconomic performance, it may be the other way around. According to Johnson et. al, the crisis is not induced by poor corporate governance, but by collapsing investment returns that made unlawful practices both necessary and doable under weak corporate governance rules. Therefore, the guiding principle in the causation chain between the macroeconomic environment and the quality of corporate governance is the falling return rate.

3.0 Methodology

3.1 Sample Selection

The sample comprises of 5 years of Wells Fargo data from the firm's annual reports and several published materials namely the company's annual proxy statement, historical stock price, the company's by-laws (as amended through March 1, 2018), its corporate governance guidelines, Related Person Transaction Policy and Procedures and others which are relevant to this research obtained from the firm's website *(https://www.wellsfargo.com/about/).* The internal list of data that was obtained from Wells Fargo's annual report and other published materials are from two years before crisis which are at 2014 and 2015, during the crisis in 2016 and 2 years after crisis from 2017-2018. As for the external data, the researcher obtained related data for the period of 5 years (2014 – 2018) at *https://www.focus-economics.com/countries/united-states*.

3.2 Variable Description

The dependent variable used in this study is the corporate government index comprises of Board structure index (2 elements), Board procedure index (2 elements), Disclosure Index (3 elements), Ownership Structure index, Shareholder Rights index and Related Party index. This index has been suggested by several research conducted by Bernard S. Black to measure the expectation that compliance to the best practices of corporate governance by firms. Information on governance variables were extracted from the firm's annual report.

The independent variables used in this study consist of four factors (internal and external). First, ROA and ROE were used as proxies for firm's performance. Second, Tobin's Q ratio is used to measure the firm's assets to its market value. Third, Altman Z-score is used in this study to predict the probability of bankruptcy, using the discriminations: $Z > 2.6$ -"Safe" Zone; $1.1 < Z < 2.6$ -"Grey" Zone; $Z < 1.1$ -"Distress" Zone. Lastly, the US GDP, unemployment rate and exchange rate for the 5 year period were used as proxies for firm's macroeconomic or external factors.

Table 3.1 Measurement of Variables

Variable	Operational Definition
ROA	Net Income to Total Asset
ROE	Net Income to Shareholder's Equity
Tobin's Q	Total Market Value of Firm to Total Asset Value of Firm
Altman Z-score	6.56T1 + 3.26T2 + 6.72T3 + 1.05T4 T1 = (Current Assets − Current Liabilities) / Total Assets T2 = Retained Earnings / Total Assets T3 = Earnings Before Interest and Taxes / Total Assets T4 = Book Value of Equity / Total Liabilities
GDP	5 years US gross domestic product
Unemployment Rate	5 years US unemployment rate
Exchange Rate	5 years US exchange rate

3.3 Statistical Method

Using multiple linear regression analysis to investigate the relationship between one or more independent variables and a dependent variable, the selected analysis used in this research is the Ordinary Least Square (OLS) analysis. Multiple regression is a linear regression extension. Based on the value of two or more variables (independent variables), it is used to determine the value of a variable (dependent variable). To accomplish this study, IBM SPSS Statistics version 25 was used to calculate data from the annual reports. The OLS multiple regression models used in the form of equation are as follows:

Table 3.2 OLS Multiple Regression Models

Model 1	$CGI = \alpha + \alpha_1 ROA_i + \alpha_2 ROE_i + \alpha_3 TobinQ_i + \alpha_4 AltmanZ_i + \varepsilon_{it}$
Model 2	$CGI = \alpha + \alpha_1 GDP_i + \alpha_2 Unemployment\ Rate_i + \alpha_3 Exchange\ Rate_i + \varepsilon_{it}$
Model 3	$CGI = \alpha + \alpha_1 ROA_i + \alpha_2 ROE_i + \alpha_3 TobinQ_i + \alpha_4 AltmanZ_i + \alpha_5 GDP_i + \alpha_6 Unemployment\ Rate_i + \alpha_7 Exchange\ Rate_i + \varepsilon_{it}$

4.0 Analysis and Findings

4.1 Descriptive Statistics

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Corporate Governance Index	.828840	.0235137	5
Return on Asset	.012220	.0010060	5
Return on Equity	.114440	.0071094	5
Tobin's Q Ratio	.145880	.0212750	5
Altman Z-score	1.352060	.0640545	5
GDP	2.420000	.5449771	5
Unemployment Rate	4.900000	.9407444	5
Exchange Rate	1.00	.000	5

4.1.1 Corporate Governance Index

The descriptive statistics are computed as well as the mean analysis and variance as presented in Table 1. The result shows that the mean for corporate governance index (CGI) is 0.82884. This indicates a strong corporate governance practiced by Wells Fargo because on average, 82.88% of corporate governance elements are practiced by the firm throughout the 5 year period. The low value of standard deviation of 0.0235 for average CGI indicates that there is only 2.35% of variation for CGI of Wells Fargo, which means that their corporate governance is less volatile to the changes in their CGI.

4.1.2 Performance

Return on Asset (ROA) and Return on Equity (ROE) are measured to indicate the performance of Wells Fargo within the 5 year period. A high ROA demonstrates the effectiveness of the firm in using its assets to generate profit. While a high ROE value indicates that the use of the equity base is a more effective administration, the better return is for investors. According to Table 1, it shows that the average on return on asset (ROA) of Wells Fargo for 5 years is 0.012. This indicates that on average, Wells Fargo generate 0.012 scent of profit for every dollar of asset. The low standard deviation (0.001) for average ROA shows that there is only 0.01% of variation for ROA for Wells Fargo, which means that it is less volatile.

As for ROE, the descriptive statistics shows that the overall average on return on equity (ROE) of Wells Fargo for 5 years is 0.1144. This indicates that for every RM 1 of shareholder's fund financed for the firm, they are able to generate RM 0.1144 worth of profit. This is an important ratio for potential investors as they will usually evaluate how skilfully a company will use its money to make income. In other words, the equity return shows how much profit each dollar generates from the equity of the common stockholder. The standard deviation of 0.0071 for average return on equity indicates that there is only 0.071% of variation for ROE for Wells Fargo, indicating that there is only 0.071% of variation for ROE of Wells Fargo in the period of 5 years.

4.1.3 Tobin's Q

Tobin's Q ratio measures the performance based on the company's value. The Q ratio can be measured by the sum of equity market value and the liability book value divided by total assets. The greater the Q ratio, the more successful the governance mechanism (Farhan, Obaid, & Azlan, 2017). In other words, when the ratio falls between 0 and 1, this indicates that it will costs more to replace firm's assets than value of the firm. The ratio above 1 indicates that the firm is worth more than the firm's asset cost.

According to Table 1, the descriptive statistics shows that Wells Fargo's Tobin's Q for the 5 year period is below 1.0 of 0.1459, means that Wells Fargo on average use the resources ineffectively because the firm worth less than their assets, indicating that the firm is undervalued. However, the low standard deviation (0.0213) for average Tobin's Q showed that there is only 2.13% of variation for Tobin's Q for Wells Fargo in 5 years, which means the firm's Tobin's Q is less volatile.

4.1.4 Altman Z

According to Table 1, the result shows that the mean for Altman Z-score of Wells Fargo for the 5 year period is 1.352. This shows that the firm is in the grey zone which indicates that they had high probability to go bankrupt. The standard deviation of 0.064 indicate that Wells Fargo less volatile to the probability of bankruptcy.

4.1.5 Macroeconomics

The macroeconomics determinants includes gross domestic product (GDP), unemployment rate, and exchange rate for the 5 year period. Based on Table 1, the mean for gross domestic product (GDP) for the 5 year period is 2.42% and a standard deviation of 0.545%. Next, the mean for unemployment rate for the 5 year period is 4.9% and a standard deviation of 0.94%. Lastly, the mean for exchange rate for the 5 year period is 1% with standard deviation of 0.00%.

Table 2: Correlation

		Corporate Governance Index	Return on Asset	Return on Equity	Tobin's Q Ratio	Altman Z-score	GDP	Unemployment Rate	Exchange Rate
Pearson Correlation	Corporate Governance Index	1.000	-.935	-.898	-.631	.352	-.451	-.864	.
	Return on Asset	-.935	1.000	.976	.579	-.258	.478	.885	.
	Return on Equity	-.898	.976	1.000	.412	-.424	.517	.911	.
	Tobin's Q Ratio	-.631	.579	.412	1.000	.240	-.210	.526	.
	Altman Z-score	.352	-.258	-.424	.240	1.000	-.088	-.581	.
	GDP	-.451	.478	.517	-.210	-.088	1.000	.156	.
	Unemployment Rate	-.864	.885	.911	.526	-.581	.156	1.000	.
	Exchange Rate	.	.	.	.	.	.	.	1.000
Sig. (1-tailed)	Corporate Governance Index	.	.010	.019	.127	.281	.223	.030	.000
	Return on Asset	.010	.	.002	.153	.338	.208	.023	.000
	Return on Equity	.019	.002	.	.246	.239	.186	.016	.000
	Tobin's Q Ratio	.127	.153	.246	.	.349	.368	.181	.000
	Altman Z-score	.281	.338	.239	.349	.	.444	.152	.000
	GDP	.223	.208	.186	.368	.444	.	.401	.000
	Unemployment Rate	.030	.023	.016	.181	.152	.401	.	.000
	Exchange Rate	.000	.000	.000	.000	.000	.000	.000	.
N	Corporate Governance Index	5	5	5	5	5	5	5	5
	Return on Asset	5	5	5	5	5	5	5	5

Return on Equity	5	5	5	5	5	5	5	5
Tobin's Q Ratio	5	5	5	5	5	5	5	5
Altman Z-score	5	5	5	5	5	5	5	5
GDP	5	5	5	5	5	5	5	5
Unemployment Rate	5	5	5	5	5	5	5	5
Exchange Rate	5	5	5	5	5	5	5	5

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	1.096	.059		18.653	.000	.909	1.283			
	Return on Asset	-21.849	4.795	-.935	-4.557	.020	-37.108	-6.590	-.935	-.935	-.935

a. Dependent Variable: Corporate Governance Index

4.2 Correlation

P value is used in this study to determine the correlation between dependent variable (corporate governance index) and independent variables (internal variables and external variables). Based on the P-value output in Table 2, return on asset (ROA) is positively significant correlated to CGI (0.010) with P value of less than 0.05. This shows that profit increase in line with the strong corporate governance practices. The same for return on equity (ROE) as the p value is less than 0.05, showing ROE is positively significant correlated to CGI (0.019). This results supported by Lakshana and Wijekoon (2012), Priyanka Aggarwal (2013), AA Azeez (2015) and Mohamed Saleh Darweesh (2015), indicated that a good and effective corporate governance structures influenced the performance of a company.

Besides, unemployment rate and exchange rate are also highly positively significant correlated on influencing CGI with P-value < 0.001 of 0.030 and 0.00 respectively. It implies that any changes in unemployment rate and exchange rate, will influence the level of corporate governance of Wells Fargo. However, for other independent variables which are Tobin's Q Ratio, Altman Z-score and GDP with the P value of 0.127, 0.281 and 0.223 respectively are not significantly correlated to CGI with P value of greater than 0.10.

4.3 Coefficient

Using P-value, the study shows that ROA is most significant influenced by corporate governance with p value less than 0.05 (0.020). This explains that the regression analysis observed that ROA is the most significant variable. The table also further showed there is a negative standardized beta of -0.935. This indicate that the ROA negatively influence the CGI. It means that the more ineffective the CG, the higher the profit of Wells Fargo whereby for every 1% change in ROA, the firm will have a negative change of 0.935% in the corporate governance index.

The findings supports the results from Wells Fargo decentralized management which led to the crisis of the firm on 2016. Before the crisis began, the board use the theory of high risk high return, hence the decentralized management practiced by Wells Fargo during the scandal. Such decentralized management was conducted by one the managers and approved by Stumpf, who was then both CEO and Chairman of Wells Fargo. This was supported by Lakshana and Wijekoon (2012), whereby the CEO duality is positively related with the likehood of corporate failure. These findings were also supported by Priyanka Aggarwal (2013) and AA Azeez (2015). As a result, it has created a managerial hegemony problem whereby a manager effectively dominate the directors due to their knowledge of the day to day operation.

Moreover, the CEO duality that puts an unvested power over one individual may resulted as to why Wells Fargo board unable to follow its own governance guideline despite having a perfect board structure. Alabede (2016) stated that the quality of the board in terms of monitoring and external advisory role of the board has a great impact to corporate performance. The possible indicators that against the understanding of healthy governance within day to day operations as argued by Nick Lin-Hi and Igor Blumberg (2011) is that there is a systematic reason in not fulfilling the good principles of corporate governance that is stemming from both of a firm’s short term goals and achieving sustainable profit that conflicts with each other.

Thus, Wells Fargo’s aim to sustaining a good board in a long run scarce the firm’s asset and capital hence the negative relationship between ROA and corporate governance index. This result may also affected after the scandal resolved in 2016, whereby Wells Fargo had to pay millions in compensation and Federal Reserve decided to restrict its growth until the firm’s risk and governance improved, which resulted to more cost to strengthen the corporate governance structure and process.

4.4. Model Summary

Table 4: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.935[a]	.874	.832	.0096467	1.911

a. Predictors: (Constant), Return on Asset

b. Dependent Variable: Corporate Governance Index

Table 5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	20.765	.020[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: Corporate Governance Index

b. Predictors: (Constant), Return on Asset

According to above tables, the adjusted R-Squared is 83.2%. This suggests that by using the internal factors namely ROA, ROE, Tobin's Q and Altman Z-score, and external factors namely GDP, unemployment rate and inflation rate in Model 3, it indicates that ROA variables used in the model are able to explain 83.2% of the variance in the corporate governance index of Wells Fargo for the 5 year period. This indicate that ROA is the most powerful to explain the dependent variable. Besides, the ANOVA table above displays a significant value of 0.020 which is below the moderate value ($p < 0.050$). It shows that the variables is strongly significant to represent the model.

5.0 Conclusion

This study aims to investigate the impact of corporate governance index in relation to bankruptcy, macroeconomics, firm value, and the company performance. To achieve this objective, four internal factors (ROA, ROE, Tobin's Q and Altman's Z) and three macro-economic factors (gross domestic product, unemployment rate and exchange rate) were investigated in this study. This study is completed in order to achieve the objectives of this study:

- To investigate the impact of corporate governance index on internal factors of Wells Fargo
- To investigate the impact of corporate governance index on external factors of Wells Fargo
- To investigate the impact of corporate governance index on internal factors and external factors of Wells Fargo

Based on the correlation and coefficient table, there are evidence indicating corporate governance index has been influenced and affected by internal factors specifically by return on asset (ROA). It is shown that ROA is positively significant correlated to CGI (0.010) with P value of less than 0.05. It indicates that when ROA increases, the corporate governance index also increases. Moreover, there is also a moderate significant relationship between corporate governance index and macroeconomic factors which is unemployment rate with P-value of less than 0.001 of 0.030.

Based on the coefficient table, ROA is most significant influenced by corporate governance with p value less than 0.05 (0.020). However, the table further explained that ROA negatively influence CGI with standardized beta of -0.935. This indicate that the more ineffective the corporate governance, the higher the profit. This is no surprise in the case of Wells Fargo during the crisis because of the decentralized management practiced by the board and the fact that the board use the theory of high risk high return. As argued by Nick Lin-Hi and Igor Blumberg (2011), due to certain systemic reason, firms violates a good corporate governance system which is the conflict to achieve short term profit and the realization of sustainable profits. This clearly explain why Wells Fargo fail to act in respect with their own corporate governance rules.

To conclude, Wells Fargo's aim to sustaining a good board in a long run scarce the firm's asset and capital hence the negative relationship between ROA and corporate governance index. With the presence of CEO duality, it has resulted in a managerial hegemony problem in the company alongside the board failure to act in respect with their own corporate governance guideline. On top of that, after the crisis resolve in 2016, it had to pay millions in compensation and the action of Federal Reserve to restrict Wells Fargo's progression until its risk and governance enhanced, which resulted to more cost to strengthen the corporate governance structure and process, hence the negative relationship between CGI and ROA.

6.0 Recommendation

Based on the findings, ROA shows a significant relationship with corporate governance index. ROA reflects the firm’s performance in terms of a firm profitability. Hence, it is important for a firm to efficiently utilizing their assets to generate income. With the presence of an effective corporate governance structure, it ensures sustainable development in the long run, instead of profit maximization in the short run. During the Wells Fargo crisis, the mission of the company to its employees was unclear, which is to fully commit to their customers ' best interests. This led to the employee opening fake accounts to achieve unrealistic goals. Because the employees have been given a new goal, and if they want to keep their jobs, this is to hit impossible sales target. As a result, the long term objective of a company is not clear, resulted in an agency problem, because the interest of the board, top management and shareholders is not aligned.

In my opinion, the decision of Wells Fargo to separate the role of CEO and Chairman is a good start to an effective corporate governance structure. Instead of practising managerial hegemony theory, the firm can implement the stakeholder approach in order to focus on a larger picture thus ensuring sustainability of the company. In other words, it encourages the board to identify, implement and inform the company's virtuous profit-making practices, improve the well - being of employees and citizens, and preserve the environment (Salvioni, Gennari, & Bosetti, 2016). With a good corporate governance system in place, The Company as a whole can benefit from constantly review the firm’s objective in order to ensure the success of the firm’s vision and mission. In addition, a constant and ongoing conversation about their goals amongst all layer of the company can make sure that the understanding of all the parties involved on the strategies and expectation of the company are aligned. By doing so, Wells Fargo can ensure their employees’ goals are helping to drive the company’s mission, which is to fully commit to the best interest of its customers.

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