When board governance becomes performative

Committees met. Reports were delivered. Policies existed.

But governance systems were not designed to challenge strategy under pressure, particularly when that strategy was delivering short-term financial performance. Oversight focused on execution and remediation rather than interrogating whether the incentive model was compatible with stated values and control frameworks.

By the time the board was forced to confront the issue directly — through regulatory enforcement and public scrutiny — the failure was no longer incremental or remediable.

From an investor perspective, this is the critical point: the policies functioned as disclosed. They demonstrated that rules existed, that training occurred, and that reporting channels were in place.

Investor signals: when incentive design is misaligned

The Wells Fargo case highlights a broader lesson for investors, particularly in regulated, capital-intensive industries like the financial sector.

Warning signs are not always hidden. Sometimes they are embedded directly in how performance is defined.

Investors should pause when they see:

- **Single-number targets** used to manage inherently multi-dimensional businesses
- **Volume-based incentives** applied where value depends on risk, mix, and duration
- **Metrics that simplify oversight** but are detached from business realities
- **Numeric targets presented as self-evident,** not grounded in data analysis
- **Public controversies blamed on individuals**, while metric design remains unexamined

More broadly, the question is not whether a metric is disclosed.

It is whether the metric is fit for the business being governed.

When incentive systems flatten complexity in businesses where complexity is the source of both value and risk, governance failure is not a surprise. It is a predictable outcome.

Sources: Independent Directors' Report (2017).