

## Evil Twin

Entrepreneurs and con men handle challenges differently

By **ALEXANDER STEIN**

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**R. SMITH** (not his real name) seemed like a respected, successful entrepreneur. In reality, he ran a network of sham companies whose sole purpose was to obscure the parent organization, a family business that he used to siphon more than a billion dollars from financial institutions. (I can't share more details because the investigation is ongoing.)

I'm a specialist in the psychology of fraud who also advises legitimate business leaders on the complex drivers of human motivation and performance. Although I have no trouble distinguishing the fraudsters I investigate from the executives I advise, I can't help noticing a few similarities.

I helped build a psychological profile of Mr. Smith to assist the fraud investigators working to recover the money that he stole. I quickly learned that he was intelligent, creative, and fiercely competitive. But then, so were Allen Stanford, the jailed ex-CEO of Stanford International Bank, and Russell Wasendorf Sr., the deposed head of Peregrine Financial Group. Both were smart, driven men who cultivated reputations as pillars of their communities.

Beneath Mr. Smith's polished surface, darker forces were at work. Top con artists tend to share critical disturbances in formative relationships, morbid dread of humiliation, and deep feelings of insecurity and inferiority. They try to negate these internal realities by achieving power and wealth. Yet they draw on old reflexes to lie, avoid, and hide.

Some of today's top entrepreneurs have dealt with psychological challenges. Think of Richard Branson's dyslexia or Oprah Winfrey's abuse as a child. Of course, Branson and Winfrey channeled emotional turmoil into productive ventures. By contrast, con artists like Mr. Smith trade in malice and betrayal.

Yet even fraudsters have businesses to run and a familiar palette of management problems to deal with. As my colleagues and I pored over the case documents, we learned about Mr. Smith's informal management style, his bouts of irrational optimism, his tendency to reward mistakes with second chances, and his love of senseless risk taking. As we traced the org chart of his conglomerate, we found rivalry between Mr. Smith's chief operating officer, the only nonrelative on his senior executive team, and the senior vice president, Mr. Smith's firstborn and heir apparent.

It was a familiar family business dynamic: The COO was a seasoned executive who resented having to report to the SVP, a callow youth who owed his job mainly to his place on the Smith



### Where Steve Meets Bernie

Is there really a parallel between one of the world's greatest entrepreneurs and one of its biggest frauds?

#### COMMON GROUND

**STEVE JOBS** was a legendarily persuasive marketer, known for the "reality distortion field" that made his pitches nearly impossible to resist.

**BERNARD MADOFF**, a master of the soft sell, convinced credulous investors that he was doing them a huge favor by taking their money.

**JOBS** successively disrupted the computing, communication, media and entertainment businesses.

**MADOFF** helped build the Nasdaq exchange, where Apple shares trade to this day.

#### DIVERGENCE

**JOBS** was resilient. Forced out of Apple in 1986, he later built it into one of the world's most valuable companies.

**MADOFF** was anything but. Rather than reveal early trading losses, he built a Ponzi scheme to conceal them.

**JOBS** left a legacy of beautiful, useful products, loyal customers, and frustrated competitors.

**MADOFF'S** legacy includes vanished fortunes, shattered trust, damaged institutions, and broken lives.

—RICHARD MCGILL MURPHY

family tree. Had this been a legitimate company, a consultant like me might have used these data points to design an effective chain of command and a viable succession plan. In Mr. Smith's case, they helped us bring his crimes to light.

Mr. Smith's son and heir was ultimately decapitated in a suspicious helicopter accident. Another child took over the business but proved incompetent. Mr. Smith had been thoroughly disgraced and vilified by the time cancer carried him off. In the end, the fears that drove him proved all too real.

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