Index

Page numbers in *italics* refer to exhibits.

AARP, 86
A.B.C. theory (bad apple, bad bushel, bad crop)
  behavioral approaches to, 41–43
  defined, 5, 51–52
  fraud triangle and, 45–49
  as taxonomy, 49–53
  understanding white-collar crime, 43–45, 189 (See also Behavioral forensics)
See also Accidental fraudsters; Predatory fraudsters
A.B.C.’s of Behavioral Forensics, The (Ramamoorti), 4–6
Accidental fraudsters
  defined, 121
  motivation of, 122–123
  profile of, 121–123, 136–139, 146–147, 186–187, 205–207 (See also Organizational behavior of executives)
  reversal theory (Apter),
    defined, 123–127, 125
  reversal theory (Apter), insights, 129–136, 131, 132, 133
  reversal theory (Apter) and eight states of motivation, 126, 126–129
Actor-observer bias, 166
“Advance fee” frauds, 86
Affect
  defined, 73–76, 75
  reversal theory and, 124
Affinity risk, 87–90, 188
AIG, 109–110
Akerlof, George, 204
Albrecht, W. S., 48–49
Alcoholism, as continuum, 115, 115–116
Altman, M., 173
Amaranth Advisors, 50
American Accounting Association, 201
American Institute of Certified Public Accountants (AICPA), 18, 46, 210
Andersen, Arthur, 109. See also Arthur Andersen
  “Anna O,” 62
Antar, Sam, 81, 183
Anticipation effect, 47
Anti-Corruption Handbook (Olsen), 214
Antisocial personality, 152–153

Apter, Michael J.
Danger: Our Quest for Excitement, 11n3
on human behavior, 22
parapathic emotion, defined, 134–135
reversal theory of, 57, 127–136, 131, 132, 133
on risk, 190
on “wilding,” 11n3

Archer Daniels Midland (ADM), 86

Ariely, Dan
on behavioral economics, 14
The (Honest) Truth about Dishonesty, 169n4
Predictably Irrational, 169n4
The Upside of Irrationality, 169n4

Armstrong, Lance, 91–93, 94, 184

Arthur Andersen
contact of interest and auditors, 187–188
The Death of Corporate Reputation: How Integrity Has Been Destroyed on Wall Street (Macey), 54n23
impression management about, 17, 19
“Mr. Arthur Andersen” (Spacek), 109
narcissism and, 151
predatory fraudsters and, 107, 109
See also Enron Corporation
Art of Talking So That People Will Listen, The (Swets), 181

Association of Certified Fraud Examiners (ACFE)
fraud data of, 111
Inside the Fraudster’s Mind (video), 43, 47, 98, 122–123
Institute for Fraud Prevention, 210
Report to the Nations, 1–2, 20, 24, 122–123, 127, 186
Wells and, 13
Auditors, conflict of interest, 187–188
Authority, persuasion and, 160–161

Babiak, Paul, 152
Barings Bank, 50, 182
Basch, Michael, 73
Baxter, Cliff, 4
Baxter (company), 156–158. See also Kraemer, Harry

Beam, Aaron
“Case of Aaron B.,” 81
predatory fraudsters and, 81, 86–87, 94, 97–98, 106–107
protective frames and, 136–137
reversal theory and, 128, 133, 133
unconscious mind and, 62–65, 68
views on Scrushy, 151–152

Bear Stearns, 21
Behavioral economics, 14, 173
Behavioral finance, 23
Behavioral forensics
The A.B.C.’s of Behavioral Forensics (Ramamoorti), approach of, 4–6
defined, 1–2
foundations of, 55–57 (See also Accidental fraudsters; Organizational behavior of executives; Predatory fraudsters; Unconscious mind)

future of, 209–211
human factor in, 2–4
interdisciplinary approach to, 6–7
motivation and, 5–6
as multi-disciplinary approach, 197–207, 198
need for, 195–196
psychological autopsy of fraud and, 208–209
scale and cycle of fraud, 196
trust violation and consequences, 4
“Benign bad apple,” defined, 140n1
Beu, D. S., 108
Bicycling sport, Armstrong and, 91–93, 94, 184
Billionaire’s Apprentice: The Rise of the Indian-American Elite and the Fall of the Galleon Hedge Fund, The (Raghavan), 194n20
Blagojevich, Rod, 29
Blankfein, Lloyd, 21, 93–94
Bounded rationality, 173
Bowen, Stuart, 208
Breit, John, 110
Breuer, Josef, 62
Brewer, Lynn, 175
“Broken windows theory,” 21–23
Brooks, David, 32
Buckley, M. R., 108
Bullying, by predators, 91–93, 109–111, 206
Burg, Bob, 180
Burgess, E. W., 184–185
Burke, Jim, 60–61
Cameron, William, 68
Canellos, George S., 30
Capote, Truman, 167–168
Cassano, Joseph, 109–110
Catch Me If You Can (film), 134
Cattani, Diann
case of, 56
profile of, 122
reversal theory and, 128–129, 133
Cayne, James, 21
Charisma, of executives, 153–158, 157
Chief financial officers (CFOs), pressure from CEOs on, 117n12
Cialdini, Robert B., 159–161, 172, 179
Clinton, Bill, 105–106
Cognitive dissonance, 175
Cohen, Stephen A., 185
Commitment and consistency, persuasion and, 159–161
Committee of Sponsoring Organizations (COSO), 44, 162n1
Compensation, disparity between executives and employees, 20–21
Computers
computer forensics, 10, 77, 179, 210
human interaction with, 23
Con artists, 152
Confirmation bias, 165, 166
Connecticut, Moody’s and, 110
Contagion, 74
Countrywide, 21
Crazy Eddie, 81, 183
Credit Suisse, 49–50
“Creeping materiality,” 39n14
Cressey, Donald, 4, 15, 45
Criminology, perspective of, 45, 48–49
Criterion problem, 32–33
Crowe Horwath, 46
Crundwell, Rita, 29, 60–61
Csikszentmihalyi, Mihaly, 74
“Culture of cleverness,” 200–203

Daiwa Bank, 49
Damasio, Antonio, 57n3, 73
Danger: Our Quest for Excitement (Apter), 11n3
Data analysis, as insufficient, 31–33
Death of Corporate Reputation: How Integrity Has Been Destroyed on Wall Street, The (Macey), 54n23
Deception as natural phenomenon, 59–60 tactics of, 181–183
Differential association, 48–49
Diller, Barry, 37
Dodd-Frank Act of 2010, 4, 18, 213–214
Doping scandal, Armstrong and, 91–93, 94, 184
Ebbers, Bernard J., 163n9
Ecology of fraud, defined, 201–202. See also Behavioral forensics; Fraud prevention
Ekman, Paul, 73, 75, 127
Elkind, Peter, 134
E-mail phishing scams, 83–87, 179, 180
Emotions e-mail phishing scams as emotional seduction, 85–87 excitement-enjoyment-fear-distress/shame cycle, 87, 151 manipulation of, 179–181 parapathic emotion, 134–135 power of shame, 94–99 psychological defenses and, 68–72, 72, 82 role of shame, 99–104, 101, 102, 103, 104 shame and pride, 99 shame and rules, 104–107 technology and, 54n22
Enron Corporation charisma and, 155–158, 157 cognitive dissonance and, 175 conflict of interest and auditors, 187–188 Enron: The Smartest Guys in the Room (film), 176–177 impression management about, 16–17 intelligence and, 176–177 narcissism and, 150 predatory fraudsters, 106, 110, 206 punishment and, 4 The Smartest Guys in the Room (McLean, Elkind), 134
Erikson, Erik, 137
Espada, Pedro, Jr., 10
Ethics, 19–21, 174–175 Every Second Counts (Ferrari), 92
Executives. See Organizational behavior of executives

Facial action coding system (FACS), 75–76

Fannie Mae, 21

Fastow, Andrew, 106

FBI
  Hanssen and, 190–191
  Profiling Unit, 205
  on white-collar crime, 43–44

Ferrari, Michele, 92

Financial Crisis Inquiry Commission, 18

Financial forensics, defined, 10–11


Financial Services Authority (Britain), 199

Fitzgerald, Patrick, 29

“Flow,” 74

Fraud
  A.B.C. theory as new fraud taxonomy, 49–53 (See also A.B.C. theory (bad apple, bad bushel, bad crop))
  behavioral approaches to, 41–43
  “broken windows theory” and, 21–23
  capability as factor in, 46
  as common, 13
  data analysis as insufficient, 31–33
  “ecology” of, 201–202 (See also Fraud prevention)
  ecology of fraud, defined, 201–202
  ethics and, 19–21
  fraud diamond, 46, 161
  fraud triangle, 45–49
  generally, 9–11
  impression management, 16–19
  legal compliance and, 14–15
  legislation and, 213–215
  “materiality” and, 33–37
  motivation and, 33–37
  numbers as representational, 27–29
  pension fund fraud examples, 29–31
  psychological autopsy of, 208–209
  scale and cycle of, 196
  by senior executives versus employees, 24
  understanding human behavior, 23
  understanding white-collar crime, 43–45, 189 (See also Behavioral forensics)

Fraud diamond, 46, 161

Fraud prevention
  A.B.C. theory and, 169
  advice for, 185–191
  confirmation bias, 165, 166
  dramatic change in perpetrators and, 167–169
  fraud sophistication and, 168–169
  fundamental attribution error, 165–166
  quantification and, 167
  rationalization and, 177–179

See also Market confidence
Fraud triangle
  defined, 4, 45–49
  fraud diamond and, 46,
    161
  operational fraud triangle,
    183–185, 184
  reversal theory and, 125
  unconscious mind and, 60–67
Freud, Anna, 66–67, 94
Freud, Sigmund, 1, 47–48, 61–67, 94. See also Unconscious mind
Friedman, Ken, 16
Friedling, David G., 88
Fromm, Erich, 62
Fuld, Richard, 21
Fundamental attribution error, 165–166

Galleon Funds, 185, 194n20
Geis, Gil, 67
Generativity, stagnation versus, 138
Gingrich, Newt, 105–106
Gladwell, Malcolm, 176, 188–189
Goffman, Erving, 16
Golden West, 21
Goldman Sachs, 21, 93–94
Graham, Robert, 128
Grandiosity, 150
Greed, fraud and, 23, 36–37
Greenspan, Stephen, 26n26
Gupta, Rajat, 185

Halle, Oliver, 128–129
Hanssen, Robert, 190–191
Harburg, Fred, 103
Hare, Robert, 152
Hare Scale, 114, 152
Hawke, Robert J., 153
HealthSouth
  charisma and, 158
  narcissism and, 148–152
  predatory fraudsters and, 81, 86–87, 94, 97–98, 106–107
  protective frames and, 136–137
  reversal theory and, 128, 133, 133
  unconscious mind of fraudsters and, 62–65, 68
Hear That Whistle Blowing (Preber), 214
Hermanson, D. R., 54n16, 161
Hertzberg, Frederick, 191
“Hindsight bias,” 188
Ho, Karen, 52, 212n24
Hodgson, Geoff, 172
Holmes, Edwin R., 2
Homeostasis, 132–133
(Honest) Truth about Dishonesty, The (Ariely), 169n4
Howard, Clark, 33–34
Hughes, Everett, 184
Human behavior,
  understanding, 23
Hunter, Brian, 50
Hypercompetitiveness, 147

Iacoboni, Marco, 74
“Iceberg theory,” 41–43
Iguchi, Toshihide, 49
Illinois, pension fraud allegations, 29–30, 60–61
Impression management, 16–19
In Cold Blood (Capote), 167–168
Influence: The Psychology of Persuasion (Cialdini), 159–161
Inside the Criminal Mind (Samenow), 43
Inside the Fraudster’s Mind (video) (Association of Certified Fraud Examiners), 43, 47, 98, 122–123
Institute for Fraud Prevention, 210
Institute for Truth in Accounting (IFTA), 38n6
Instrumental perspective, 14
Internal controls, 44
Iraq War, psychological autopsy of fraud and, 208–209
Jacobs, Michael, 174
James, William, 160
Jennings, Marianne, 174–175
Jensen, Michael, 148–149
Katz, J., 185
Kelvin, Lord, 68
Kerner, Otto, Jr., 29
Kerviel, Jérôme, 50
Kipling, Rudyard, 155
Kirchheimer, Sid, 86
Kozlowski, Dennis, 156–158, 157
Kraemer, Harry
charisma and, 156–158, 157
intelligence and, 177
on legality, 136
Kullberg, Duane, 107

Law, Steven, 155–156
Lay, Kenneth
charisma and, 155–158, 157
narcissism and, 150
Leadership
charisma and, 153–158, 157
stewardship and, 173–174
Learning theory, 47, 48
Leeson, Nick, 50, 182
Legal compliance, 14–15
Lehman Brothers, 17–18, 21
Levin, Carl, 93–94
Levitt, Arthur, 15
Lewin, Kurt, 22–23
LIBOR (benchmark rate), 198–199
Life-span issues, of fraudsters, 136–139, 147
Liking, persuasion and, 160–161
Liquidated: An Ethnography of Wall Street (Ho), 52
Lowenstein, Roger, 17, 21
Lynch, Loretta E., 10
Maccoby, Michael, 149
Macey, J., 54n23
Mack, John, 21
Mackenzie, 176
Madoff, Bernie
affinity risk, 87–90, 188
rationalization by, 178
unconscious mind and, 63
Madoff, Ruth, 89
Mafia, 184
“Malignant bad apple,” defined, 140n1
“Man Who Would Be King, The” (Kipling), 155
March, James, 200–203
Market confidence generally, 171–172
moral foundations of capitalism and, 172–176
Marlborough diamond, theft of, 10
Martoma, Matthew, 185
“Materiality,” 33–37
Mayer, Marissa, 24n1
McGregor, Lynn, 204
McLean, Bethany, 109, 134, 206
Mental illness, role of, 111–117, 115, 116
Merrill Lynch, 110
“Midlife crisis,” of fraudsters, 136–139, 147
_Midnight Run_ (film), 138
Milgram, Stanley, 135, 160–161
Milne, Kevin, 199
MISR (money, ideology, sex, and revenge), 190–191
Moody’s, 110
Moral foundations of capitalism, 172–176
Morgan Stanley, 21
Morrison Associates, 144, 150
Motivation
  MISR (money, ideology, sex, and revenge), 190–191
  motive, opportunity, and means (MOM), 5–6
  reversal theory and eight states of motivation, 126, 126–129 (See also Reversal theory)
Mozilo, Angelo, 21
Mudd, Daniel, 21
“My eyes glaze over” (MEGO) syndrome, 147–148

Narcissism, 148–151
Nathanson, Donald, 70, 103, 106
New Jersey, pension fraud allegations, 29–30
New York Police Department, 22
_New York Times_, 182
“Nigerian 419” scams, 86

Nigrini, Mark, 7n2
Nocera, Joe, 109
Normative perspective, 14
Norris, Floyd, 182
_Nudge_ (Thaler, Sunstein), 169n4
_Obedience to Authority_ (Milgram), 141n14
Olsen, William P., 214
_Omerta_, 184
Operational fraud triangle, 183–185, 184
Organizational behavior of executives
  characteristics of executives, 147–148
  fraud by senior executives _versus_ employees, 24
  fraud prevention and, 176–177
  gang behavior, 3
  leadership and charisma, 153–158, 157
  narcissism and, 148–151
  persuasion and, 158–161
  psychological evaluation of executives, 144–147
  psychopathy and antisocial personality traits, 152–153
Owens, Bill, 68
Paperny, Justin, 133, 133
Parapathic emotion, 134–135
Pavlo, Walt, 185
Pension fraud allegations, 29–30. See also Enron Corporation
Persuasion, by executives, 159–161
Pesce, Pete, 151
Phishing scams, 83–87, 179, 180
Post, Jerrold, 152–153, 154
Preber, Bradley J., 214
Predatory fraudsters
bullying, 91–93, 109–111, 206
domains and, 82
emotions and, 82
generally, 81
humility and, 93–94
“malignant bad apple,”
defined, 140n1
mental illness and, 111–117,
115, 116
power of shame, 94–99
predator-prey dance, defined, 193n12
relationship between
perpetrator and victim, 82–93
“said the spider to the fly”
analogy, 83–84
shame and pride, 99–104,
101, 102, 103, 104, 107–108
shame’s role in fraud, 104–107
Predictably Irrational (Ariely),
169n4
Pride, shame and, 99
Prince, Charles, 199
Problem-solving behavior,
146–147
Project Management AS IF People
Mattered (Graham), 128
Prospects of Western Civilization,
The (Toynbee), 209
Protective frames, 134–135
Psychoanalytic theory, 47–48,
65–66. See also Unconscious
mind
Psychological autopsy, of fraud, 208–209
Psychological evaluation, of
executives, 144–147
Psychopathy
narcissism and, 152–153
psychopathic traits
continuum, 114–116, 116
role of mental illness in fraud,
112–116
sociopathy and, 78–79n18,
112
subclinical, 113–116
Psychosomatic disorders, 78n9
Quantification
data analysis as insufficient,
31–33
fraud prevention and, 167
“materiality” and, 33–37
numbers as representational,
27–29
pension fund fraud examples,
29–31
Quinn, Patrick, 30
Rachel, Arthur “the Brain,” 10
Raghavan, Anita, 194n20
Rajaratnam, Raj, 185
Ramamoorti, S., 4–6
Rand Corporation, 18
Rationalization
deception tactics and,
181–183
defined, 66–67
emotions and, 72
fraud prevention and,
177–179
Reciprocation, persuasion and,
159
Redlefs, Laura J., 174
Redleaf, Andrew, 203
Relationships. See Predatory fraudsters; Victims

Report to the Nations (Association of Certified Fraud Examiners), 1–2, 20, 24, 122–123, 127, 186

Reversal theory

defined, 123–127, 125

eight states of motivation, 126–129

insights, 129–136, 131, 132, 133

usefulness of, 57

Risk, 190

Rosenzweig, Don, 90

Ryan, George H., 29

SAC Capital Advisors, 185

Samenow, Stanton E., 43


Saunders, David, 15

Saving Adam Smith: A Tale of Wealth, Transformation, and Virtue (Wight), 172

Sayles, Leonard, 17

Scarcity, persuasion and, 161

Schaechter, Judith, 38n1

Schouten, Ronald, 113–114

“Science of persuasion,” 172

Scrushy, Richard

charisma and, 158

narcissism and, 148, 151–152

predatory fraudsters, 86–87, 97–98, 106–107

protective frames and, 136

unconscious mind and, 62–65, 68

Securities and Exchange Commission (SEC), 29–30

Senior executives. See

Organizational behavior of executives

Seven Signs of Ethical Collapse, How to Spot Moral Meltdowns Before It’s Too Late (Jennings), 174–175

Shame

emotional manipulation and, 180

power of, 94–99

pride and, 99

role of, 99–104, 101, 102, 103, 104

rules and, 104–107

Shiller, Robert, 204

Simon, Herbert, 173

Skilling, Jeffrey

behavior of, 206

intelligence and, 176–177

narcissism and, 150

Skinner, B. F., 48

“Slippery slope,” 19–21

Smartest Guys in the Room, The (McLean, Elkind), 134

Smith, Adam, 172

Smith, Bryan, 61

Smith, Cynthia, 17

Smith, K. C. P., 133–134

Smith, Patti, 95–97

Smith, Perry, 167–168

Smith, Weston, 98

Snakes in Suits (Hare, Babiak), 152

Social Animal: The Hidden Sources of Love, Character, and Achievement, The (Brooks), 32

Social comparison theory, 8n14

Social proof, persuasion and, 160

Société Générale, 50
Sociopathy, 78–79n18, 112. See also Psychopathy
Spacek, Leonard, 109
Spillover effects, 56
Stand by Me (film), 112–113
Statistics, manipulating, 30–31
Stewardship, 173–174
Stimuli, adaptive response to, 104
Stout, Martha, 78–79n18
Strategic intelligence, 149
Subclinical psychopathy, 113–116
Subway crime, in New York City, 22
Sunstein, C., 169n4
Sutherland, Edwin H., 15, 48–49
Swanson, Kathe, 60–61
Swets, Paul, 181
Thaler, R., 169n4
Theory of Moral Sentiments, A (Smith), 172
Thompson, Ken, 21
Tipping Point, The (Gladwell), 188–189
Tomkins, Silvan, 73–74
Toynbee, Arnold, 209
Treadway Commission, 44, 162n1
Tyler, Tom, 14

Unconscious mind
affect and, 73–76, 75
deception as natural phenomenon, 59–60
emotions and psychological defenses, 68–72, 72, 82
fraud triangle and, 60–67
psychoanalytic theory, 47–48, 65–66
Upside of Irrationality, The (Ariely), 169n4
U.S. Anti-Doping Agency, 91
U.S. Department of Labor, 155–156

Victims
authority and, 161 (See also Organizational behavior of executives)
bullying of, 91–93, 109–111
Milgram experiment, 135
perpetrators and affinity fraud, 87–90, 188
perpetrators’ relationship to, 82–87 (See also Predatory fraudsters)
trauma of, 20–21
Vigilante, Richard, 203
Walker, Dan, 29
Walker, David M., 19
Wall Street Journal, 174
Wechsler Adult Intelligence Scale, 146–147
Wells, Joseph T., 13, 47
Whitacre, Mark, 86
Whitebox Advisors, 203
White-collar crime, understanding, 43–45, 189.
See also Behavioral forensics
Wight, Jonathan, 172
“Wilding,” 11n3
Wolfe, D. T., 54n16, 161
Woodruff, Judy, 208
WorldCom, 17, 163n9
Yahoo, 24n1
“Zimmerman’s Law of Complaints,” 16