

Corporate Risk and Resilience: Personality and its impact on ESG

ECLA: September 18th, 2023

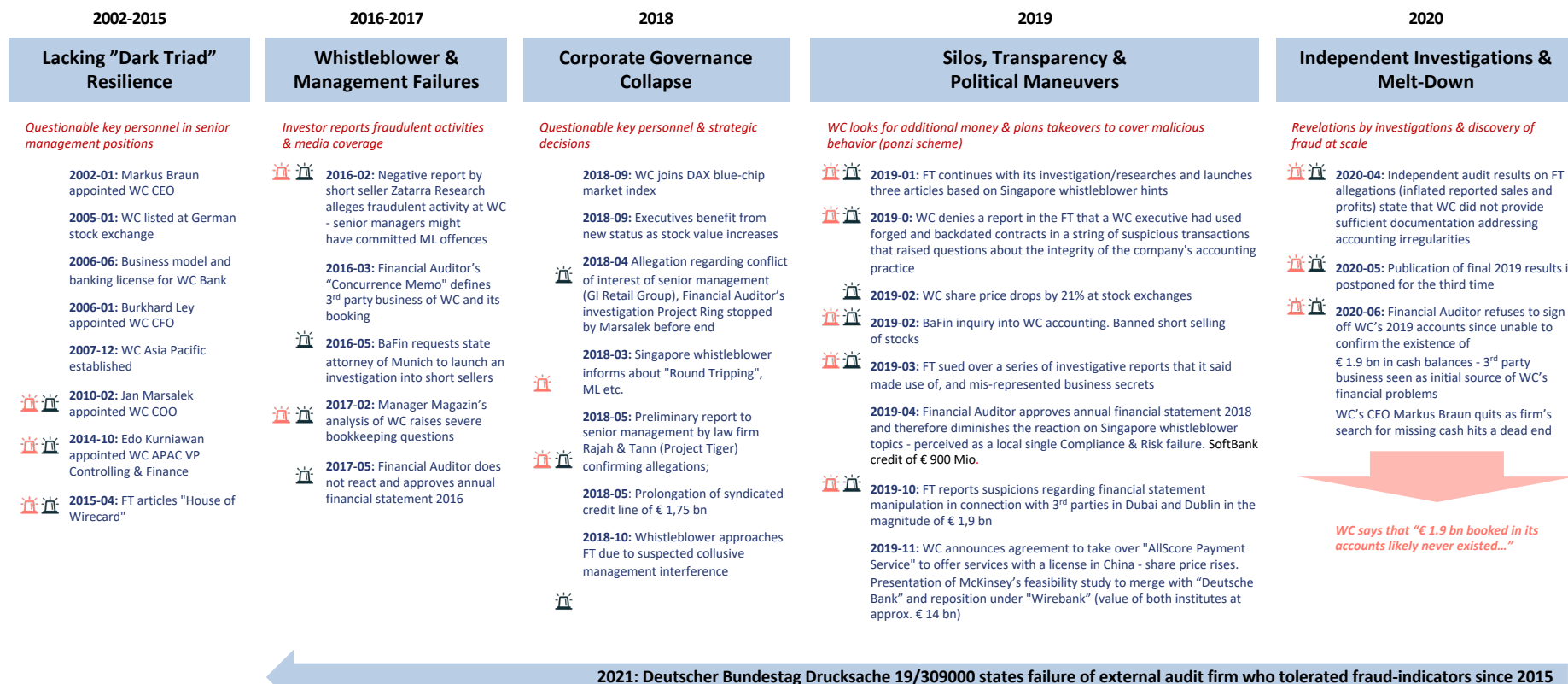
Reverse-engineering Wirecard - Timeline & red flags



Red flags which, if an internal independent capability with direct access to BoD type bodies, would have triggered actions and/or could have improved the internal control situation



Red flags which should have woken up external parties



«Reciprocal Altruism» - the basis of social activity

The principle: «Tit for Tat»-Strategy (TFT)

- **Be nice:** cooperate, never be the first to defect.
 - **Be provokable:** return defection for defection, cooperation for cooperation
 - **Don't be envious:** focus on maximizing your own «score», as opposed to ensuring your score is higher than your partners.
 - **Don't be too clever** – or don't try to be tricky. Clarity is essential for others to cooperate with you.
- An evolutionarily stable strategy – the basis of any sustainable cooperation.
- ❑ **Reciprocal Altruism works under certain conditions:**
- The prerequisite is always a long term relationship. That means:
- The partners know each other.
 - Their behaviours can be mutually checked.
 - Further cooperations are foreseeable.



In a nutshell:

«Any individual can make profit from mutual cooperation
but
every individual is even better off, if it exploits the cooperative
efforts of the others»



....and who are these «Non-Reciprocators»?

Source: Dr. med. Thomas Knecht (2017). Psychiatrisches Zentrum Appenzell Ausserrhoden, in: Psychology of the White-Collar-Criminal; Lecture: “Economic Crime & Corporate Resilience” @ University Zurich & ETH.; Dr. med. Francesca Steinmann (2023). Corporate Psychopathology-Personality structure of the Corporate Psychopath: Lecture “Economic Crime & Corporate Resilience” @ University Zurich & ETH.

Non-Reciprocators: Dark Triad & Corporate Psychopathy

Psychopathy:

→ An **individual** who possesses all of the **interpersonal manipulation skills, callous affect, erratic lifestyle and antisocial behavior measured by PCL-R** is considered a **psychopath**. Having all these traits it is unlikely to make it into the "top-management". But.....

Focused on satisfaction of primal personal needs, fatal in combination with lack of empathy, responsibility and addictive behaviors (drugs, sex, gambling, thrill seeking etc).

☐ INTERPERSONAL MANIPULATION

- Glib / Superficial
- Grandiose
- Pathological Lying
- Conning / Manipulative

☐ CALLOUS AFFECT

- No remorse
- Shallow affect
- Lack of empathy (*cognitive empathy yes, but no or little affective empathy*)
- Does not accept responsibility

☐ ERRATIC LIFESTYLE

- Need for stimulation (often combined with drugs, alcohol, Viagra etc.)
- Parasitic Lifestyle
- Lack of realistic, long time goals (Plans)
- Impulsive,
- Irresponsibly
- Promiscuousness

☐ ANTISOCIAL BEHAVIOR

- Poor behavior controls and sudden outbursts of violence
- Early behavior problems
- Juvenile delinquency
- Revocation of release
- Criminal versatility



Characteristics of „Non-Reciprocators“



Wirecard/D-Jan Marsalek-Fraud
Is an Austrian alleged white-collar criminal and former manager, known for his position as board member and chief operating officer of the German payment processing firm Wirecard. He has been a fugitive since June 2020 because of his role in the Wirecard scandal and is considered one of the main culprits in the Wirecard accounting scandal with a loss of approx. € 1.9 Bn. Content was a series of corrupt business practices and fraudulent financial reporting that led to the insolvency of Wirecard in Munich. The company was part of the DAX index.

Article: The Wirecard Scandal – Wikipedia.
Photo: Fahndungsplakat.



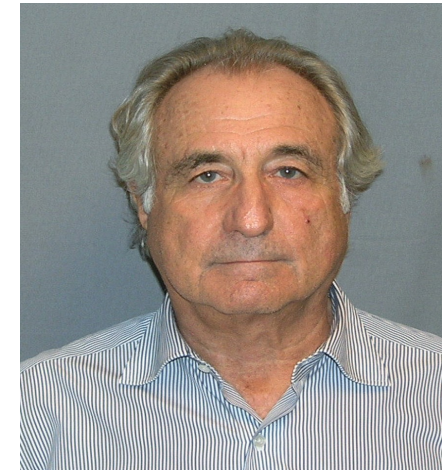
Theranos/US-Elizabeth Holmes-Fraud:
Is a former biotechnology entrepreneur and convicted fraudster. She is the founder and former CEO of Theranos, a defunct health technology company. It soared in valuation after the company claimed to have revolutionized blood testing by developing methods that could use surprisingly small volumes of blood. The credibility of Theranos was attributed in part to Holmes's personal connections and ability to recruit the support of influential people. She was convicted of four counts of fraud in January 2022 and sentenced to an 11-year jail term.

Article: Griffith, Erin; Woo, Erin (January 3, 2022). "Elizabeth Holmes is found guilty of four counts of fraud". *The New York Times*. Archived from the original on January 4, 2022. Retrieved January 4, 2022.
Photo: Max Morse for TechCrunch, 2014;



Gate Gourmet/CH–Amanda Jacobsen-Fraud:
Gate Group, the world's biggest independent airline caterer announced the resignation of Guy Dubois a former CFO, after a fraud case involving middle manager Amanda Jacobsen occurred. Gate Group announced the discovery of "an isolated incident" of fraud at a subsidiary amounting to CHF 22m. By Amanda Jacobsen, a Danish national based in Zurich, whose lavish lifestyle had been financed largely by her alleged fraud. Jacobsen donated for ex. as a gift a Ferrari to Dubois, organized an apartment for Dubois daughter in Paris, invited the Dubois family to a boat cruise in the Caribbean, that was organised for CHF 230K also from Jacobsen. Dubois nor Jacobsen paid for this trip – the bill was settled via an account of Gate Group. After organising a lap dancing party for another executive in the group's offices she received a warning letter. "We had been misled by the employee charged in this case and the fraud happened under my watch. For this I take responsibility and step down", said Mr Dubois. Amanda Jacobsen's husband committed later suicide.

Article: Haig Simonian in Zurich for Financial Times; April 6, 2011.
Photo: Schweiz. Handelszeitung.



Bernard L. Madoff /US
April 29, 1938 – April 14, 2021
Madoff was an American fraudster and - according to Mesly & Maziade nominated as a potential financial psychopath** - who was the mastermind of the largest Ponzi scheme in history, worth about \$64.8 billion*. He has denied being a sociopath and claimed that his victims should carry much of the blame for the fraud. Madoff was charming, cultivated and charismatic and at the yearly "Interbourse"-skiraces in Switzerland, his invitations were legendary. Diana Henriques a journalist (New York Times and author of: The wizard of lies- Bernie Madoff an the Death of Trust" told Fresh Air's Terry Gross: "Madoff was a fluent liar. The magic of his personality is how easy it is to believe him-almost how much you want to believe him"

*Graybow, Martha (March 11, 2009). "US Prosecutors updated the size of Madoff's scheme from \$ 50 to \$ 64 billion". *Reuters*. Archived from the original on July 7, 2009.)
**Mesly O., Maziade R., "Bankers and Functional Psychopathy: The Risk of Losing Everything" (2013). 16(1) *Journal of Wealth Management* 33.

Traits:

Elisabeth Holmes:

- Indications of narcissism with machiavellian tendencies:
- Secrecy obsession to every aspect of Theranos'
 - Investor money taken under the condition not to reveal Theranos' technology and her final say over everything with the company (machiavellianism)
 - Attitude toward secrecy and running a company borrowed from Apple CEO Steve Jobs (narcissism)
 - Power player against employees (psychopathy); Dating COO S. Balwani with same traits - Control freaks (machiavellianism)
 - Never took vacation, demanding boss
 - Networking talent incl. "kissing up and kicking down)
 - Carefully crafted image (Deep voicing, Black dressed etc.)

Amanda Jacobsen:

Flamboyant, lavish lifestyle:

- Jacobsen donated for ex. as a gift a Ferrari to CEO Dubois, organized an apartment for Dubois daughter in Paris, invited the Dubois family to a boat cruise in the Caribbean, that was organised for CHF 230K also from Jacobsen (machiavellianism; Executive capture (with 2 CEO's); networking abilities for selfish reasons)
- Flamboyant, lavish lifestyle (narcissism)
- CV, achievements and merits invented (pathological lying, psychopathy)
- Talent to connect and "go to person for difficult task and get things done" (psychopathy and/or machiavellianism)
- Guilty plea: Following statement of Jacobsen "Auditors did not do their job"; I took as much as I could; Did not get a salary rise for 5 years; I warned the company about security gaps etc. (BZ Wirtschaft, 13.09.2012 kpn; Cressy fraud triangle)

Bernard L. Madoff:

- Mesly & Maziade nominated as a potential financial psychopath
- He has denied being a sociopath and claimed that his victims should carry much of the blame for the fraud.
- Madoff was charming, cultivated and charismatic and at the yearly "Interbourse"-Skiraces in Switzerland, his invitations were legendary.
- Madoff was a pathological liar.

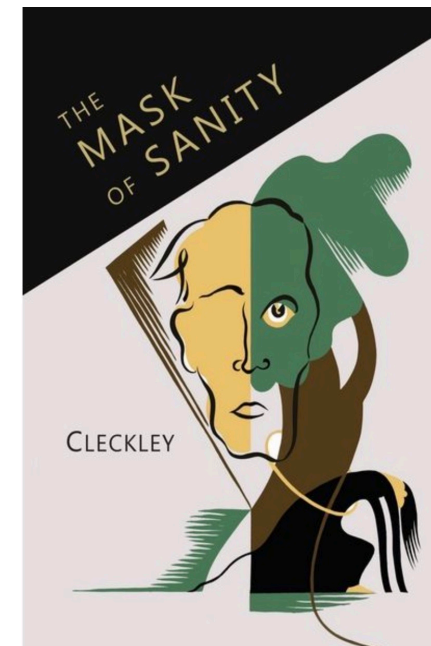
Clinical Psychopath by Cleckley 1903 – 1984

1941: THE MASK OF SANITY

Described the «**psychopathic personality**»
as a **human chameleon, being able to fake goodness and sanity.**

*«So he thought them to be able to become
successful lawyers, managers, doctors, etc. (...).»*

«What fundamentally defines psychopathy is the presence of personality traits, generally related to a lack of emotion (e.g. lack of nervousness, absence of remorse or shame, inability to love, shallow affective reactions) and the presence of an outward appearance of normality (superficial charm, and good ‘intelligence’).»



Core personality traits psychopathy factor 1 («aggressive narcissism») & factor 2 (social deviant lifestyle)

- Hare (forensic psychologist) strong link to criminal behavior with psychopathy
- Underpinned psychopathy as personality structure with two factors:



Clinical (forensic) Psychopathy
by Robert D. Hare 1991

1. "aggressive narcissism":

Interpersonal

- Glibness / superficial charm
- Grandiose sense of self-worth / egocentric
- Pathological lying
- Cunning / manipulativ

Affective

- Lack of remorse or guilt
- Shallow affect
- Callousness; lack of empathy
- Blames others; failure to accept responsibility for own actions

2. "deviant lifestyle":

Social deviance

- Need for stimulation/proneness to boredom
- Parasitic lifestyle
- Lack of realistic long-term goals
- Impulsivity
- Irresponsibility

Antisocial

- Poor behavioral controls
- Early behavior problems
Juvenile delinquency
High recidivism; Revocation of conditional release
- Criminal versatility

+ 2 factorless items: Many short-term marital relationships, Promiscuous sexual behavior

Clinical Psychopathy (1/2)

Clinical Psychopathy (Hare 2003)

**2 Factors
&
4 Facets**

2 factors and 4 facets form the psychopathic personality

Factor 1:
(Primary psychopathy;
aggressive narcissism)

Factor 2
(Secondary psychopathy;
social deviant lifestyle)

Cluster of behaviours and traits

Interpersonal
manipulation

Callous
affect

Erratic
lifestyle

Antisocial behavior

“Integrated & successful” (clinical) Psychopaths Dutton 2012, Lilienfeld 2015

Psychopathy **prone to delinquency**, **but** scientific literature acknowledges:

- existence of people with **high levels of psychopathy** who are **not offenders or violent**: so-called “**integrated psychopaths**”
- existence of people with **high levels of psychopathy** who **achieve great success in their lives**: so-called “**successful psychopaths**” “**Successful psychopathy**” refers to psychopathic personality traits such as **lack of fear, high self-confidence, charm***, which can be beneficial in certain contexts (factor 1, PCL-R, Hare 2003 or PPI-R-SF, Lilienfeld & Windows 2015 etc.).
- *In opposition to person with the type of clinical psychopathy, whose **lack of social skills or self-control** (**factor 2, PCL-R, Hare 2003**) would cause her/him to rely on threats and coercion and who would probably **not be able to hold down a job for long**.

Psychopathy & ASPD

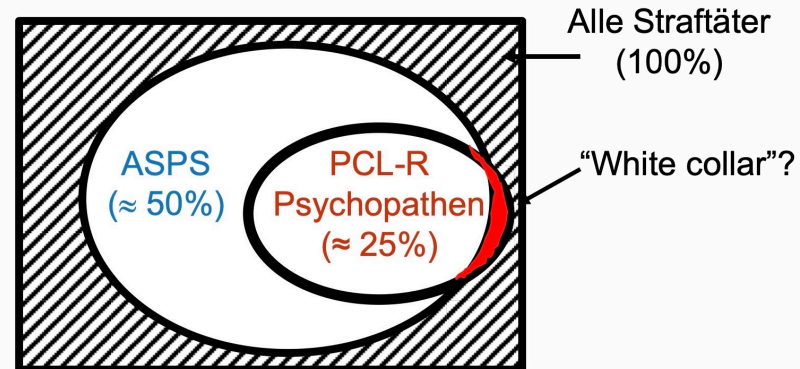
with kind permission of Prof. Dr. med. Elmar Habermeyer

Psychopathy & Antisoziale Persönlichkeitsstörung

()
Psychiatrische
Universitätsklinik Zürich

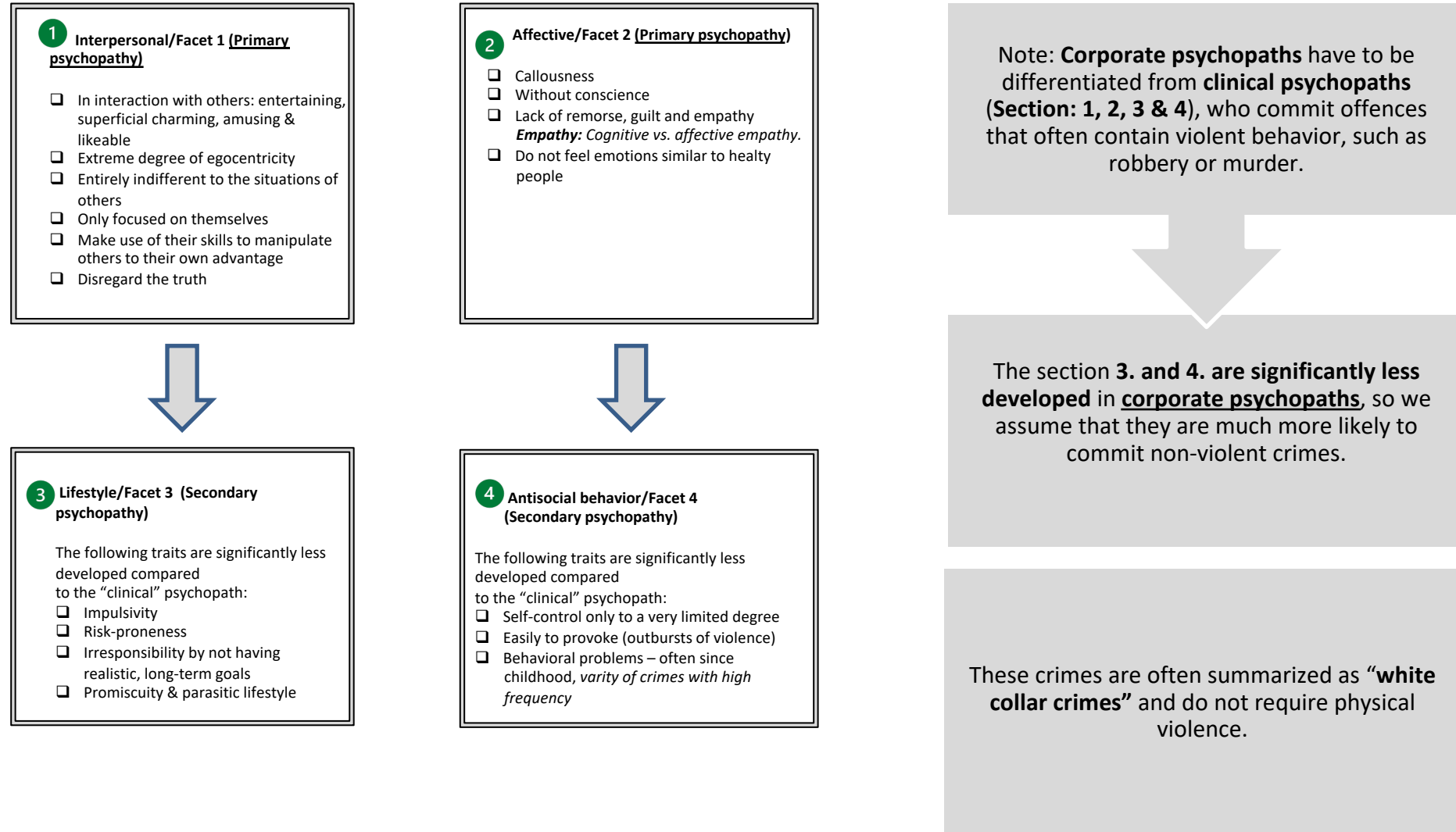
Prävalenz von Psychopathy

- Allgemeinbevölkerung: ca. 1%
- Straftäter: 20 - 25%



⇒ Unterschiede zwischen Psychopathy und ASPD vornehmlich im affektiven Bereich

Corporate psychopathy



Corporate Psychopathy (2/2)

Corporate Psychopathy (Hare 1991 & 2003)

Factor 1:
Primary psychopathy

Factor 2:
Contains impulsive & antisocial behavior; these traits are significantly less developed with Corp. Psychopaths → «**non violent crimes**»!

2 factors and 4 facets form the psychopathic personality

Factor 1:
(Psychopathic core personality; aggressive narcissism)

Factor 2:
(**Secondary psychopathy; social deviant lifestyle**)

Cluster of behaviours and traits

Facet 1:
Interpersonal manipulation

Facet 2:
Callous affect

Facet 3:
Erratic lifestyle

Facet 4:
Antisocial behavior

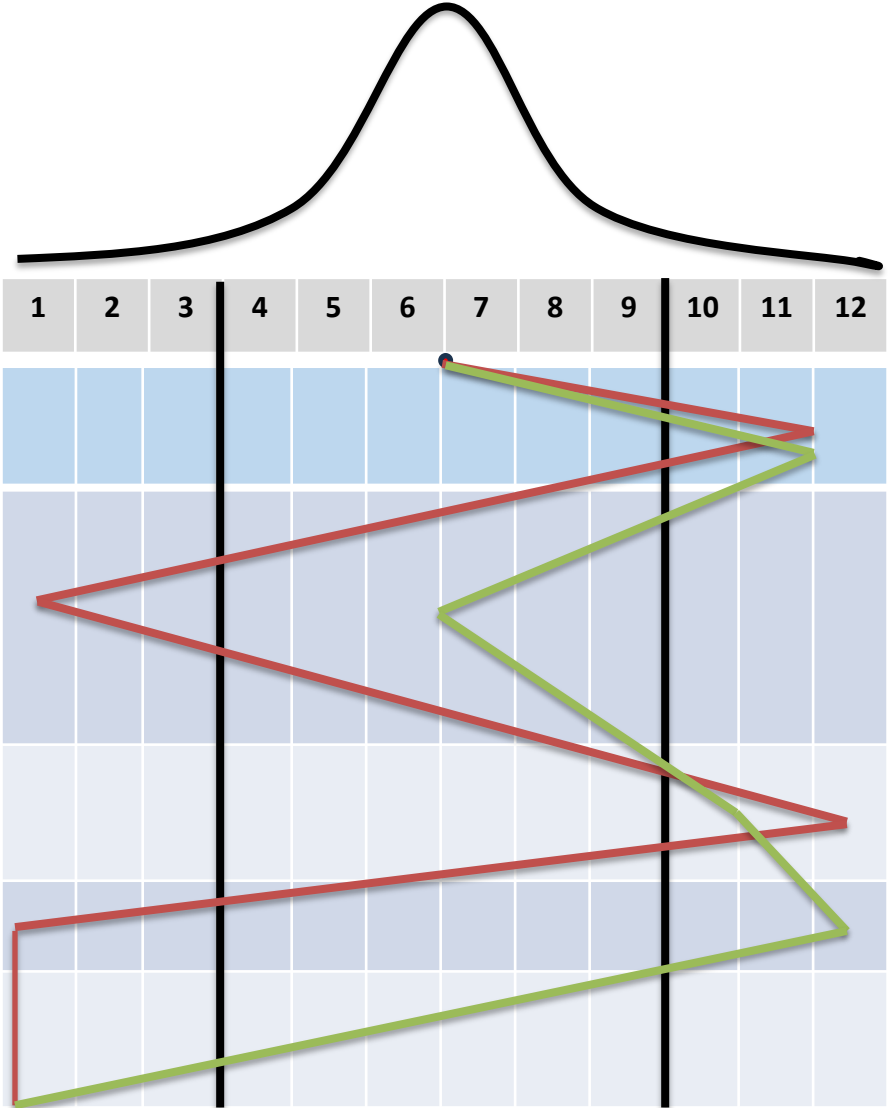
Dimensional view of a psychopathic personality according to the “Mask of Sanity”

Gaussian curve for formal distributions

True psychopathic traits and behavior

„Mask of Sanity“: Mimic of a perfect, respectable businessman, while reaching out their selfish and socially aversive goals

Personality	Low Indicator
Openness	Practical, sceptical, shoes away from new
Conscientious	Easy going, relaxed, spontaneous, not many rules, lack of moral & ethics, incapable to follow reciprocal altruism
Extroversion	Likes solitary time, shy, reserved, quiet, independent
Agreeableness	Uncooperative, antagonitic, suspicious
Neuroticism	Not easily bothered, secure, emotionally resilient



High Indicator	Personality
Love new, intellectually curious, creative, adventurous	Openness
Disciplined, efficient, organised, responsible, high moral and ethical standards, high in social responsibility	Conscientious
Outgoing, enthusiastic, active, novelty seeking	Extroversion
Cooperative, kind, affectionate, friendly	Agreeableness
Tense, moody, anxious, sensitive, prone to negative	Neuroticism

Evolution of psychopathy!

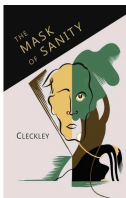
1945: Goering was also described as being one of the more ruthless psychopaths in a psychopathic government (Gilbert, 1948). He scores in the psychopathic range on all but the most criminally oriented of psychopathy measures (the PCL-R) with about 60%, but includes all the criteria for primary psychopathy. He fulfils about 90% of Levenson's criteria for Primary Psychopathy and 81% of Cleckley's criteria.



Personality Disorders:

1941: THE MASK OF SANITY by Cleckley:

- Described the **«psychopathic personality»** as a **human chameleone, being able to fake goodness and sanity**.
- «So he thought them to be able to become successful lawyers, managers, doctors, etc. (...)»
- «What fundamentally defines psychopathy is the presence of personality traits, generally related to a lack of emotion (e.g. lack of nervousness, absence of remorse or shame, inability to love, shallow affective reactions) and the presence of an outward appearance of normality (superficial charm, and good 'intelligence').»

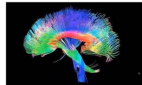


Ted Bundy scored 39/40 (!)* on the Psychopathy Checklist (Hare) *Robert D. Hare (1999):



ASPD ≠ Psychopathy:

Different neural network functions are served!



ASPD with Psychopathy (ICD-11; DMS)

Corporate Psychopathy (Dimensional)

(Dimensional construct, without medical disease value)

Criteria by Hare:

Factor 1:
«aggressive narcissism»

Facet:
Interpersonal manipulation

Facet:
Callous affect

Factor 2:
«social deviant lifestyle»

Facet:
Erratic lifestyle

Facet:
Antisocial behavior

Factor 1:
«aggressive narcissism»

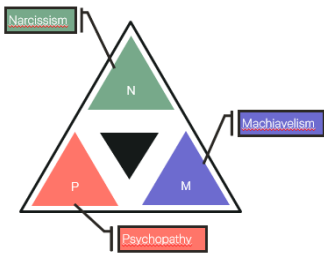
Facet:
Interpersonal manipulation

Facet:
Callous affect

Factor 2:
Secondary psychopathy:
«social deviant lifestyle»

Contains impulsive & antisocial behavior; these traits are significantly less developed with Corp. Psychopaths → «non violent crimes» - often »white collar«!

Dimensional – psychological view:



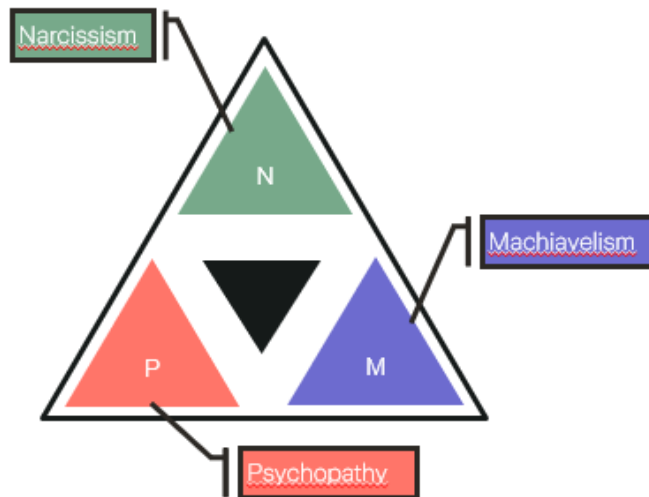
As long as psychopathy is diagnosed in medicine in connection with ASPD and is no longer an independent clinical diagnosis (as it was in the time of Cleckley), the socially aversive disorder of the "corporate psychopath" must be defined and recorded via the dimensional construct "dark triad" without disease value.

Today: There are two recognized manuals for this task. The World Health Organization (WHO) with the ICD-11 (International Classification of Diseases) and the Diagnostic and Statistical Manual of Mental Disorders (DMS) of the American Psychiatric Association (APA). These differentiate the mental disorders into 11 relevant categories, which are as follows:

- paranoid personality disorder
- schizoid personality disorder
- dissocial or antisocial personality disorder , (with/without psychopathy)
- emotionally unstable personality disorder
- histrionic personality disorder
- compulsive personality disorder
- anxious-avoidant personality disorder.
- dependent personality disorder
- schizotypal personality disorder
10. narcissistic personality disorder
- passive aggressive personality disorder

Psychological Concept «Dark Triad of Personality»

In "Human Factor Risk" it is key to elaborate on certain traits and characteristics of human beings, that could pose challenges and in fact can become problematic, should they develop in a pathological way.



- **Subclinical narcissism** describes traits related to selfishness involving a sense of entitlement, lack of empathy, hubris and a need for admiration.
- **Machiavellianism** is a skill set of abilities. One of this abilities is the "Theory of mind" allowing the bearer to foresee the reaction of others, and to manipulate and exploit individuals for own needs.
- **Subclinical Psychopathy** describes traits driven by egoism, unscrupulousness, and callousness with contact to often severe criminal offences. Psychopaths are focused on satisfaction of primal personal needs, fatal in combination with lack of empathy, responsibility, and often addictive behaviours.

Paulus, D.,L.; Williams, K.,M.: The Dark Triad of Personality. (2002). In: Journal of Research in personality. Band 36, S. 556-563.

Core of Dark Triad compromised emotional & social cognitive skills

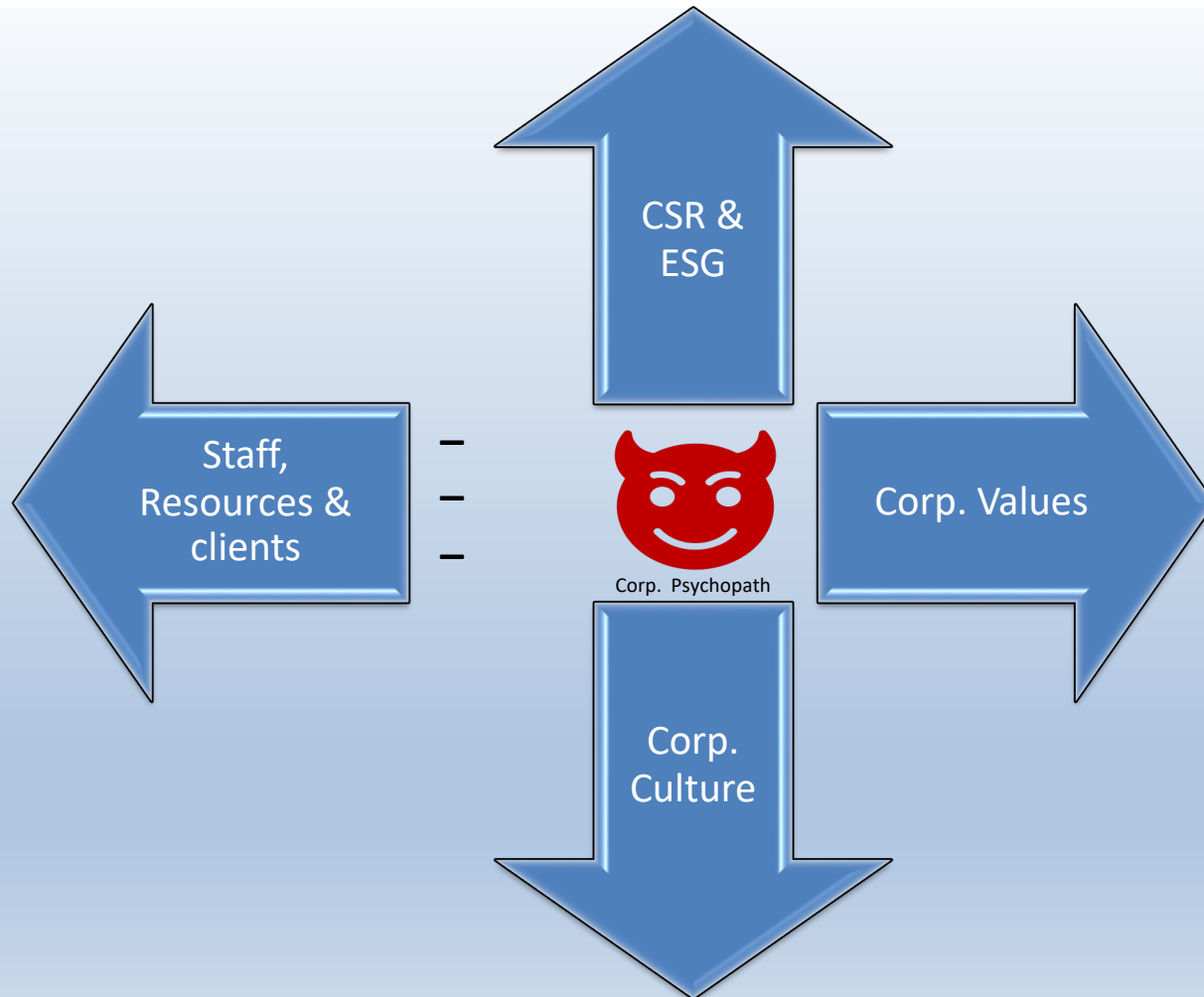
- **Compromised Empathy**
- **Compromised Moral**
- **Compromised Theory of mind (mindreading)**

 **harmful, manipulativ, unconscientiousness**

Corporate psychopathy and CSR/ESG

Results** of the research are described showing the highly significant and negative influence of Corporate Psychopaths on all of the measures of CSR and of organizational commitment to employees. When Corporate Psychopaths are present in leadership positions within organizations employees are less likely to agree with views that:

- the organization does business in a socially desirable manner;
- does business in an environmentally friendly manner;
- that the organization does business in a way that benefits the local community;
- employees are significantly less likely to agree that the corporation does business in a way that shows commitment to employees;
- significantly less likely to feel that they receive due recognition for doing a good job, to feel that their work was appreciated and to feel that their efforts were properly rewarded.



Core of Dark Triad:

Compromised emotional and social cognitive skills:

- Compromised empathy
- Compromised moral
- Compromised «theory of mind»

→ “Clash of values” and lack of CSR is one of the “push” factors, motivating talents away from one workplace (GenZ, Millennials etc)*.

→ Costs associated with corporate psychopathy for one corporate executive: A single failed leader approx. US \$ 1.5 -2.7 million*.

* Sheehy B., Boddy C., Murphy B., *Corporate law and corporate psychopaths* (2021). In: Psychiatry, Psychology and Law, 2021, Vol. 28, No. 4, 479-507, <https://dx.doi.org/10.1080/13218719.2020.1795000>

** Boddy C., Ladyshevsy R., Galvin P., *The Influence of Corporate Psychopaths on Corporate Social Responsibility and Organizational Commitment to Employees.*, Journal of Business Ethics (2010). 97:1-19, DOI 10.1007/s10551-010-0492-3 , Springer 2010.