The Psychology of Fraud
Grace Duffield and Peter Grabosky

Fraud, like other crime, can best be explained by three factors: a supply of motivated offenders, the availability of suitable targets and the absence of capable guardians—control systems or someone “to mind the store”, so to speak (Cohen & Felson 1979). In this, the first of two papers, the authors focus on motivation and other psychological aspects of fraud. They identify a number of psychological correlates of fraud offending, but note that these are by no means unique to fraud, and do not necessarily differentiate fraudsters from law-abiding citizens. The other two factors, opportunities and guardianship, provide more scope for fraud control and will be addressed in a companion paper on “red flags”, or situational indicia, of fraud risk.

Adam Graycar
Director

Defining Fraud

In its broadest terms, fraud means obtaining something of value or avoiding an obligation by means of deception. This embraces many and varied forms of conduct, ranging from false claims against an insurance policy to some corporate frauds that are meticulously planned and intricate in their execution. The variety and complexity of fraud necessitates that, for purposes of explanation, the concept of fraud be “broken down” into manageable categories. This paper categorises fraud in terms of the organisational context in which it occurs, and the nature of the relationship between offender and victim. It then explores what the perpetrators of these different types of fraud have in common, and what distinguishes them from each other. For the purposes of comparison, the following categories of fraud have been set out.

- Fraud committed against an organisation by a principal or senior official of that organisation. Examples of this include offences against shareholders or creditors by errant “high-flying entrepreneurs” (Sykes 1994) or corrupt practices by senior public officials.
- Fraud committed against an organisation by a client (an “outsider”) or employee (an “insider”). This category includes embezzlement, insurance fraud, tax evasion and other fraud against government.
- Fraud committed against one individual by another in the context of direct face-to-face interaction. This would include classic “con games” (Maurer 1940), frauds by sales staff, and predatory activities against clients or customers by unethical investment advisers, shady roof repairers and others who prey directly on a consumer.
- Fraud committed against a number of individuals through print or electronic media, or by other indirect means. This would include Nigerian advance fee frauds (Smith, Holmes & Kaufmann 1999), share market manipulation, and deceptive advertising or investment solicitations pitched at a relatively large number of prospective victims.

The above categories are neither definitive nor mutually exclusive, but they do provide a useful starting point for explanation.
Explaining Fraud

Like other crime, fraud can best be explained by three factors: a supply of motivated offenders, the availability of suitable targets and the absence of capable guardians (Cohen & Felson 1979; Krambia-Kapardis 2001). The three are inextricably linked. As Nettler (1974) observes:

> The intensity of desire and the perception of opportunity are personality variables. The balance between desire and opportunity moves. Temptation to steal fluctuates with individual temperament and situation. (p. 75)

Motivation is therefore a combination of an individual’s personality and the situation in which they find themselves. Conversely, psychological factors will influence the way a person interprets the situation they are in and this, in turn, will influence the action they choose to take.

Psychological Factors in Fraud

At first glance, a psychological explanation for fraud would appear simple—greed and dishonesty. Such an explanation is, however, overly simplistic. There are many in society who are aggressively acquisitive but generally law abiding. Moreover, not all dishonest people commit fraud. To date, behavioural scientists have been unable to identify a psychological characteristic that serves as a valid and reliable marker of the propensity of an individual to commit fraud.

There are, nevertheless, numerous examples of attempts to distinguish people who will commit fraud (or who are predisposed to commit fraud given the right situation) from those who will not. These attempts include “honesty” or “integrity” testing aimed at measuring the trustworthiness of potential employees (Sackett & Harris 1984; Ones, Viswesvaran & Schmidt 1993). Personality instruments, such as the Minnesota Multiphasic Personality Inventory and the Personality Assessment Inventory, are also used to screen out undesirable applicants from positions of trust in public and private sector employment. While it is not within the scope of this paper to examine the reliability and validity of honesty testing, there is little doubt that there are a number of psychological or motivational factors that are associated with increased risk of fraud. In looking at the factors associated with fraud in a general sense, as well as specific categories of fraud, it should be remembered that psychological factors might be viewed as a marker for fraud but not a comprehensive explanation for it.

Common Elements of Motivation for Fraud

Explanations based on financial strain feature in almost every type of fraudulent activity. This may arise from imprudence, misfortune or a combination of the two. Of course, financial strain is a very subjective thing. Even those of above-average affluence may feel economically deprived in comparison to what they perceive to be their relevant standard. At times, “keeping up with the Jones’s” may require other than lawful conduct. Simply put, this comes down to the desire to possess what one cannot afford, even when true financial deprivation may not exist. Inherent in this is an element of ego in which there is a comparison with others who are better off and a desire to match that standard in terms of lifestyle, comfort and material possessions.

Financial strain may also arise from the threat of loss of something currently owned. For example, high-flying entrepreneurs may encounter adverse business conditions that place them in a position of acute financial vulnerability and threaten the empire that they have built for themselves. The threat of loss here is not only of material wealth but also of power, status and pride. To some, fraud may be seen as a short-term solution to this problem. Other sources of financial stress may result from lifestyle choices, the most prominent of which is compulsive gambling. In contemporary society the cost and addictive properties of illicit drugs may also contribute to financial stress on the part of those individuals who indulge in them. Relationship breakdowns can also cause acute stress, both financial and emotional, especially given expensive divorce settlements and custody or maintenance battles. In some cases marital breakdown can represent a sudden and dramatic decline in an individual’s standard of living, along with a feeling of powerlessness and resentment. This constellation of factors reflects the old-time detectives’ explanation of what turns a person to fraud—sexual relationships, substance abuse and risk-taking or gambling. This is also known as “the hypothesis of the three Bs—babes, booze and bets” (Nettler 1982, p. 74).

Another aspect of motivation that may apply to some or all types of fraud is ego/power. This can relate to power over people as well as power over situations. In terms of the former, the sensation of power over another individual or individuals seems to be a strong motivating force for some fraud offenders to the point that it becomes an end in itself. As one confidence man put it:

> For myself, I love to make people do what I want them to, I love command. I love to rule people. That’s why I’m a con artist. (quoted in Blum 1972, p. 46)

In manipulating and making fools of their victims, some fraud perpetrators seem to take a contemptuous delight in the act itself rather than simply the outcome. As Stotland (1977) points out:

> …sometimes individuals’ motivation for crime may have originally been relative deprivation, greed, threat to continued goal attainment and so forth. However, as they found themselves successful at this crime, they began to gain some secondary delight in the knowledge that they are fooling the world, that they are showing their superiority to others. (pp. 186–7)
Similar to the sense of superiority over others is the gratification obtained from mastery of a situation. This may be particularly prevalent in more complex, long-term fraud and computer fraud where specialist skills are required. It also reflects the professional pride of the confidence artist. The following quotation illustrates the thrill of the chase.

Half of being a con man is the challenge. When I score, I get more kick out of that than anything; to score is the biggest kick of my whole life.

(quoted in Blum 1972, p. 44)

Stotland (1977) calls this motivation “ego challenge” (p. 188) and it relates to the sense of mastery and excitement in meeting and overcoming challenges. As he points out, some fraud perpetrators work very hard at their trade, so they are not in it for an “easy buck”. While this is usually a positive quality when channelled into legitimate undertakings, it has become corrupted in fraud offenders.

Another general psychological aspect of fraud is the process of rationalisation which reduces the offender’s inhibition. Such attempts at prospective excuse have been termed “techniques of neutralisation” (Sykes & Matza 1957). There has been a tendency in the literature to confuse motivation with neutralisation, but they differ in important ways. Motivation is what drives the act of fraud, while neutralisation paves the way by nullifying internal moral objections. Regardless of the type of fraud, most offenders seem to seek to justify or rationalise their activity. In doing so they will use “vocabularies of adjustment” (Cressey 1953, 1986; Krambia-Kapardis 2001) that manufacture rationale and extenuating circumstances and remove the perception of criminality from the act (at least from the point of view of the perpetrator).

Techniques of neutralisation will vary with the type of fraud (Benson 1985). For example, frauds against large companies or government departments are often rationalised with the excuse “they can afford it”. Other examples of neutralisations include viewing the victim as culpable in some respect or, alternatively, trivialising the offence so that it becomes a “victimless crime” or so that there is no significant harm done. Those frauds that involve a victim entering willingly and knowingly into an illegal act (such as money laundering or tax evasion) are among the easiest for the fraud offender to rationalise. In such cases it becomes easy to believe that the victim “had it coming”. In his study of confidence men and their activities, Blum (1972) found that many attributed their success to the inherent greed of the victim. Many con artists also seemed to have a misanthropic view of human nature and assumed that others were as scheming and dishonest as they were. There is no doubt that generating a dislike and lack of respect for the victim makes it easier to treat them badly. As one con man said, “…any people I don’t like I can hustle better” (quoted in Blum 1972, p. 44).

The idea of victims getting what they deserve is reflected in another con man’s statement: …the victim has the same responsibility as the victimiser. If the victim never wanted anything from you, he’d never go so far as to get in the condition to be conned.

(Blum 1972, p. 46)

In other words, “you can’t cheat an honest man”. Responsibility for the fraud in this case is placed squarely on (or at least shared with) the victim.

Stotland (1977) has proposed that as well as positive motivations for white-collar crimes such as fraud, there are also “weak restraints” (p. 191) that lessen the inhibitions to commit these crimes. In fact, these are very similar to the neutralisations discussed elsewhere (Cressey 1953, 1986). One of these weak restraints is the perception that everyone engages in this behaviour as part of astute business/financial practice. In this way, practices such as tax fraud, insurance fraud and padding expense accounts becomes normal behaviour and those individuals that do not participate are seen as naı̈ve. Stotland goes on to point out that the moral ambiguity surrounding some types of fraud is exacerbated by the characteristically short sentences meted out to offenders. In particularly high profile cases, the leniency of punishment communicates to society that these people are somehow different from the common criminal. Again, this tends to “decriminalise” fraud in the eyes of the public. Stotland also states that the nature of the victim can weaken restraints on the white-collar criminal with impersonal government departments and large organisations being morally easier to defraud. Stealing a little from a lot of people means that harm is not as “up close and personal” as it would be in the case of an individual victim or small group. This is similar to the “they can afford it” neutralisation mentioned earlier.

Dimensions of Fraud

In addition to psychological factors that are common to diverse types of fraud, some factors will be unique to specific types of fraud. Moreover, the psychological factors that distinguish one type of offence from another may also distinguish one type of offender from another. For example, the individual involved in sophisticated and complex manipulation of share markets may be quite distinct from someone involved in the ruthless exploitation of a vulnerable individual whom they have taken into their confidence. In a sense, the behaviour an offender shows in a crime may provide clues about their psychological characteristics. Although this paper is not a definitive attempt to “criminally profile” fraud offenders, we begin to examine possible differences by setting out our four general categories of fraud and discussing some of the psychological factors that may be associated with each.
**Fraud committed against an organisation by a principal or senior official of that organisation**

Entrepreneurial fraud, or misappropriation of corporate assets by senior management, appears to be related to a constellation of factors. High-flying entrepreneurs tend to be extremely ambitious to the point of appearing "driven". They also appear obsessed with enhancing power and control. Senior managers also usually have a favourable impression of themselves, sometimes unrealistically so. Whether it is conditioned by the successes they have attained during their rise to the top, or whether it is a necessary prerequisite to get to the top in the first place, some develop a sense of superiority bordering on narcissism. It was said of Christopher Skase, for example, that he "had a ferocious faith in the rightness of whatever he was doing" (Sykes 1994, p. 306). Another characteristic of entrepreneurial fraudsters is their tendency to surround themselves with sycophants or organisational conformists who are easily dominated. John Friedrich, who defrauded the National Safety Council, was said to surround himself with loyal workers (Sykes 1994, p. 240). Similarly, it was said of Christopher Skase that he was "very impatient with criticism" (Sykes 1994, p. 306). Persons who harbour unrealistic impressions of their own capability, when reinforced by sycophants, lack a reality check and may be more likely to engage in risky behaviour than more grounded or "normal" executives (Janis 1982).

This risk-taking would be exacerbated by the indifference to conventional rules of conduct that apply to narcissistic personalities. According to the *Diagnostic and Statistical Manual of Mental Disorders*, narcissistic personality disorder is a pervasive pattern of grandiosity, a need for admiration and a lack of empathy for others. Individuals with this disorder believe that they are superior, unique and "chosen", and they are likely to have inflated views of their own accomplishments and abilities. They focus on how well they are doing in comparison with others, and this can take the form of an excessive need for attention and admiration. A sense of entitlement is evident and they expect to be given whatever they want regardless of the imposition it places on others. In the workplace these people tend to overwork others. They demand unquestioning loyalty and are incredulous or infuriated when it is not forthcoming. They are likely to respond angrily to criticism (DSM-IV Task Force 1994, pp. 658–9). Perhaps most relevant to fraud offences is the tendency of the narcissistic personality to usurp special privileges and extra resources that they feel they have an entitlement to, over and above ordinary people. This attitude is captured in the words of Leona Helmsley, a wealthy American subsequently convicted of tax evasion, when she said "only the little people pay taxes". Due to their ambition, confidence and ruthlessness in dealing with others, the narcissistic personality may be a high achiever in their chosen field of endeavour.

Estimated prevalence rates of narcissistic personality disorder in the general population are about one per cent. While the prevalence rate is likely to be much higher in the population of entrepreneurial fraudsters, it must be remembered that not every narcissistic personality will commit fraud. Indeed, some will appear to do quite well in corporate environments. However, it can be argued that the presence of narcissistic personality traits increases the risk of fraud on the part of an individual through the attitudes they manifest, their leadership style and the environment that they seek out.

**Fraud committed against an organisation by a client or employee**

At least two major themes emerge in the phenomenon of employee theft (Sarbin 1994, p. 114). In the first theme, an employee perceives that they are being treated unfairly by their employer. This is a subjective assessment and may or may not be justified. It can be due to a multitude of circumstances including missing out on a promotion, feeling that remuneration is inadequate, perceived unfair treatment compared to co-workers, disciplinary action, or chronic resentment at a perceived lack of appreciation (of talents and/or contribution). Under these conditions disgruntlement may develop and the vengeful employee may seek retribution for perceived slights and/or neglect through acts such as larceny and embezzlement. In this way they get what they feel is their just reward while punishing the management or organisation that overlooked them. If done successfully over time, ego motives and a sense of superiority over others may also contribute to the fraudulent activity.

The second theme is that of territorial ownership. Employees, especially those in large organisations or government departments, may presume personal ownership or entitlement by virtue of occupation (of a position or space) or through regular use/access. The resource becomes "my office", "my computer" and "my budget". This, in turn, seems to provide moral justification for taking the resource for personal use. While this may account for a lot of petty pilfering of stationery, much larger abuses (for example, computer equipment, credit card access) are also potentially seen as unofficial perks of the job.

**Fraud committed against one individual by another in the context of face-to-face interaction**

The direct person-to-person deception of another individual can involve utter ruthlessness. This may take such extreme forms as the person who takes a widow into his or her confidence and leaves her penniless. Offenders of this type may manifest a number of traits including lack of affection or empathy, lack of remorse and a general lack of conventional
conscience. Such individuals are also likely to enjoy acting, as acting skills are advantageous, if not essential, to the deception inherent in face-to-face fraud. Beyond this, skills in salesmanship and sociability are also helpful to the “con artist”. One notes that some of the same qualities that facilitate fraud are also integral to successful commercial activity of a legitimate nature.

From a psychosocial point of view, this group is perhaps the most seriously disturbed due to the requirement for often quite intimate interpersonal betrayal. A study by Blum (1972) showed that convicted offenders in this group scored high on measures of psychopathology. He characterised this group as “impulsive, amoral, uncontrolled and detached from normal relationships” (p. 49). He concluded that “they are an unusually sick group in terms of mental health and an unusually antisocial group in terms of lack of regard for others” (p. 50). What Blum uncovered in his sample is a strong thread of antisocial personality disorder.

According to the Diagnostic and Statistical Manual of Mental Disorders, antisocial personality disorder is a pervasive pattern of disregard for, and violation of the rights of, others. This basically refers to a lack of social conscience and conventional morality. These personalities frequently deceive, exploit and manipulate others in order to achieve personal gain (for example, money, sex or power). A pattern of impulsivity is often apparent in all aspects of their lives and there is a special attraction to risk-taking, thrill-seeking and gambling. These individuals show no genuine remorse for their actions. The superficial justifications that they offer for having hurt others resemble the neutralisations that were discussed earlier. They blame their victims for being stupid or deserving of their fate, they minimise the harmful consequences of their actions or they may simply display an arrogant indifference. They are also likely to believe that it is a “dog-eat-dog” world and everyone is out for number one (DSM-IV Task Force 1994, pp. 645–55). While the prevalence of antisocial personality disorder in the general population is between about one per cent and three per cent, rates in prison populations are much higher and it is possible that prevalence is also higher in this sub-type of fraud.

**Fraud committed against a number of individuals through print or electronic media, or other indirect means**

For those unable to look a prospective victim in the face, a variety of media permit indirect dealing. The terms “mail fraud” and “wire fraud” date to the early days of the twentieth century in the United States. The most recent manifestation of long-distance postal frauds is the Nigerian advance fee frauds involving mass mailings. Subsequently, telemarketing fraud used telephone systems to communicate with victims. More recently, the advent of digital technology has facilitated instantaneous communication with millions of prospective victims through the use of the Internet and email.

From a psychological perspective, the “fraud at a distance” perpetrated through media entails reduced social cues during interaction with the victim. While the degree of callousness required to dupe someone face-to-face is fortunately quite rare, far more individuals are capable of the depersonalised social aggression required for indirect fraud. In fact, it has been suggested that the lack of social cues in communication such as email leads to a reduction in the influence of social norms and constraints on the average person’s behaviour (Johnson 1998). Overall, these media serve to distance the fraudster from the prospective victim, making the predatory conduct less difficult for those offenders with some semblance of conscience.

**Conclusion**

What is apparent from the literature is that the risk of fraud is a product of both personality and environmental or situational variables. This has two implications for understanding fraud risk. First, it means that individuals will vary in their propensity to commit fraud even when they are subject to similar environmental pressures. Second, it means that situations will vary in their impact on individuals according to the inherent risk factors at any given time. Just as there are likely to be high- to low-risk individuals, there are also likely to be high- to low-risk situations. As individuals move from one environment to another, the probability of fraud behaviour also changes. There are likely to be situational conditions that would discourage all but the most incorrigible people from committing fraud. Conversely, there are situations that encourage fraud to the point that even the average person is at risk of engaging in it.

Identification of fraud risk is still in its infancy. Few categories of offences suffer from the same dearth of psychological profiles of offenders as fraud and white-collar crime in general. More research is required before conclusively defining which personality traits or disorders make up characteristic predispositions toward fraud. In the meantime, the best that can be done is to point to personality characteristics and motivating factors that may be associated with an increased risk of fraud. Unfortunately, these characteristics (for example, narcissism) and motivations (for example, a need to demonstrate superiority over others) also influence a great deal of legitimate, indeed desirable, behaviour in professional and corporate settings. Consequently, they are not always amenable to policy intervention.

Nor do they lend themselves precisely to the prediction of fraud risk. There is a substantial
literature on the prediction of dishonesty, but instruments are imprecise and still generate a number of so-called “false positives”—people who appear to be at risk of offending but who are in fact unlikely to commit the crime. Personality-based integrity tests also capture a range of undesirable workplace behaviours (such as tardiness or poor performance). These tests seem to be measuring the broader concept of “conscientiousness” rather than fraud risk per se.

One policy opportunity that does clearly arise from the above discussion is that of confronting techniques of neutralisation. To this end, the efforts of anti-corruption and integrity authorities in raising the standard and clearly delimiting what constitutes unacceptable behaviour may, in the long run, increase inhibitions against fraud. Ethics, however, will get us only so far. There will always be a hard core of people who, with full knowledge of the difference between right and wrong, will opt for the latter.

The prosecution and sentencing of fraud offenders provides further opportunities to reaffirm society’s condemnation of intentionally deceptive practices. Aggressive prosecution and severe sentencing may help send a message that makes it difficult for potential fraudsters to rationalise or excuse their intended acts. It has been suggested that white-collar criminals are particularly influenced by punishment policies because they have much more to lose through publicity and imprisonment than common street offenders (Braithwaite 1985). Despite this, there is an impression that compared to other offenders, courts treat white-collar criminals more leniently.

In summary, the key to understanding and eventually controlling fraud is to consider both the individual and the environment in which they operate. While this paper has examined some individual factors associated with fraud, there are many situations in which personality and motivations lie beyond the reach of policy. In these cases, those who would prevent and control fraud must look to reducing opportunities and to exercising a degree of surveillance. This will be the subject of the sequel to this paper, “Red Flags of Fraud” (Trends and Issues No. 200).

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Grace Duffield is a psychologist with the Australian Security Intelligence Organization.

Dr Peter Grabosky is Deputy Director of the Australian Institute of Criminology.

General Editor, Trends and Issues in Crime and Criminal Justice series:
Dr Adam Graycar, Director
Australian Institute of Criminology
GPO Box 2944
Canberra ACT 2601 Australia

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