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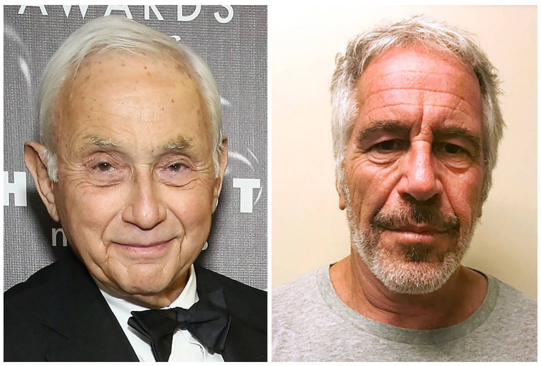
BUSINESS | ON BUSINESS

Trusting Jeffrey Epstein Taught a Retail Legend a Hard Lesson: Be Careful Whom You Trust

L Brands' founder Leslie Wexner, who accused the disgraced financier of stealing vast sums of money, recalls his father's warning about too much optimism



Leslie Wexner, left, the 81-year-old founder of L Brands Inc., had a personal and professional relationship with accused sex trafficker Jeffrey Epstein, the disgraced financier who hanged himself in jail last week. PHOTO: WEXNER: ASTRID STAWIARZ/GETTY IMAGES FOR FRAGRANCE FOUNDATION; EPSTEIN: ASSOCIATED PRESS

By John D. Stoll

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Leslie Wexner was among the pathfinders for American business in China in the 1970s, shunning the official channels in Beijing for Shanghai, making big investments on essentially a handshake.

“I just met a businessman somewhere, and he trusted me, and I trusted him, and we started doing things,” Mr. Wexner, the 81-year-old founder of L Brands Inc., said in a talk at Harvard's Center for Public Leadership.

If trust helped make Mr. Wexner a retailing legend, though, it is tormenting him now. Mr. Wexner had a personal and professional relationship with accused sex trafficker Jeffrey Epstein, the disgraced financier who hanged himself in jail last week. That relationship was crucial in building the wealth and prominence Mr. Epstein used to exploit young women.

How could a man who amassed billions selling bras, bluejeans and bath salts to women put so much trust in Mr. Epstein for two decades? Mr. Wexner claims his former associate misappropriated vast sums of money.

It's a question that brings into focus the role trust plays in American business. Long seen as nearly as essential as money for the economy, it is as powerful as it is dangerous. Trust serves as the secret sauce in every transaction, business plan and employment arrangement. But, behind every Ponzi scheme, market meltdown and corporate fraud lies a serious case of misplaced trust.

Roderick Kramer, a social psychologist teaching at Stanford's Graduate School of Business who has long studied trust and business, explained the downside to me. Most successful business folks are risk takers, he said. Risk requires trust, and leadership types tend to overestimate their ability to size up people or situations.

Harry Wexner was no psychologist, but in a quiet moment on a Florida beach long after his son had become a success, he warned Les that he had to be careful not to be too gullible.

“What I'm worried about is you're optimistic, you think the world is full of goodness,” Harry

Wexner said, encouraging him to brace for disappointment. "You're just optimistic and naive." Recalling the story years later during a recorded interview, Mr. Wexner agreed with his father.

Mr. Kramer wrote about this after the financial crisis and the Bernie Madoff Ponzi-scheme scandal in the second half of 2008. He described interactions between Stanford M.B.A. candidates in the negotiations class he was teaching. The future leaders of American business were too trusting.

About 95% of M.B.A. students were routinely placing themselves in the upper half of the class when rating their ability to size up the trustworthiness, reliability and honesty of fellow classmates. More than three-quarters put themselves in the top 25%, while 20% placed themselves in the top 10%.

Mr. Kramer said he hasn't updated his study of M.B.A.s in several years. Pew Research Center data indicates today's younger set is more jaded and skeptical than students from a decade ago, in fact.

Regardless of how the data shakes out in 2019, overconfidence still carries potentially disastrous consequences. Just look at how many accomplished engineers and scientists left good jobs to join Theranos. The defunct blood-testing company, founded by Elizabeth Holmes, is accused of perpetrating Silicon Valley's biggest fraud because few people bothered to verify Ms. Holmes's claims.

The ability of executives at WorldCom or Enron to pull the wool over our eyes is the stuff of legend, but we often forget that misplaced trust happens every day in the normal course of business. And it's sometimes those we trust most who make the biggest errors.

Alan Greenspan, the former Federal Reserve chairman, was revered in the finance community before the Great Recession. During a 2008 appearance before a congressional committee, he pinned the crisis partially on misplaced trust in financial institutions that failed to put the public first.

"Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity (myself especially) are in a state of shocked disbelief," he said, calling his hands-off governance philosophy a mistake because it assigned too much trust to flawed executives.

The consequences of misplaced trust can vary. Mr. Madoff's victims incurred upward of $65 billion in losses. Theranos employees lost jobs; investors lost millions of dollars; board members and advocates lost their reputations. The consequences for Mr. Wexner, who wrote recently that he is embarrassed by Mr. Epstein's deception, are still unclear.

Alexander Stein, a human-behavior expert and founder of Dolus Advisors, consults on white-collar misconduct and said we get duped because we "outsource trust."

"It becomes less about who we trust and more about what we trust," Mr. Stein said. "It's not the person, it's the image of the person, or the persona and the brand." Ms. Holmes is said to have courted people—including former Secretary of State George Shultz and top executives of Walgreens—with penetrating blue eyes that rarely blinked, an unusually deep voice and a wardrobe of black turtlenecks that evoked Apple Inc. co-founder Steve Jobs.

He said Mr. Epstein built a coalition of "co-conspirators" with the help of mansions, private planes, good looks and savvy conversational skills.

Mr. Wexner wasn't available for comment, and he has rarely spoken publicly about Mr. Epstein. At Harvard, a decade ago, he owned up to making bad judgment calls that at the time didn't seem unethical, but in hindsight were clearly ill-advised. Following a moral compass can be tough and complicated, he said, but necessary.

Even the most moral among us make mistakes that have shadowed us. This is tough for Mr. Wexner, who spent much of his time and fortune trying to carve out a legacy that doesn't resemble Mr. Epstein's.

When asked what he wanted to be known for, Mr. Wexner recently said he doesn't want to be remembered as the guy who created the sexiest thongs or comfiest hip-huggers. "No one remembers who sold the most togas in Rome," he said. He has spent decades giving away millions to various causes, including Ohio State University, the United Way and children's hospitals.

But Mr. Wexner acknowledged in the same talk that there's a flip side: "People remember the great villains more than they remember the great heroes."

SHARE YOUR THOUGHTS

Ever had a situation in which you misjudged someone's trustworthiness? Share your experience below.

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