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# Forgotten economic actors How pirates, mafias and other illegitimate firms shape economic systems and competition

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The study of legitimacy and legal/illegal boundaries has fascinated social scientists and other scholars for many years. What is considered legal and illegal, legitimate and illegitimate is at best a social construct and, arguably, at worst defined or imposed by socio-economic systems such as capitalism or communism. The construct is a fluid one, open to definition by social groups and individuals, as well as being enshrined in laws and regulations designed to protect and preserve economic systems. It is curious, therefore, that researchers of organizations and management have paid relatively little attention to both the definitions and the activities of what might be considered illegal or illegitimate organizations.

To explore this topic, we need first to clarify the field under study in terms of economic activity and actors. Economic activity cannot be conceptualized as black or white. Grey areas exist. That is why numerous concepts have been used to define the scope of activities considered to be law-breaking or socially unacceptable, including the shadow economy or underground economy, illicit business, illegal activities, and the informal economy. The OECD (2002), in an attempt to achieve complete coverage of national economic production, tried to establish some order and introduced "non-observed economy", a construct encompassing three defined components: underground production, illegal production and informal sector production. But the OECD acknowledged that the distinction between components remains confusing, at least in that underground and informal production overlap. Webb et al. (2009) offer a more comprehensive framework for defining socially or legally forbidden activities<sup>1</sup>. They draw upon entrepreneurial process and institutional theory to distinguish three categories of entrepreneurial activity (or economic territory):

- the formal economy refers to activities whose means and ends are legal and legitimate;
- the renegade economy corresponds to activities where the means and ends are both illegal and illegitimate: for example, drug trafficking;
- informal activity is located in between, bringing together activities with means or ends which are illegal yet legitimate: for instance, software piracy (ends are illegal) or the recruitment of undocumented workers in the construction business (means are illegal).

1. See also the essay by Monin and Croidieu, who provide additional information about this theoretical work.

The authors base their reflection upon the assumption that entrepreneurs

initially belong to one economic territory and are susceptible to move to another. Their work is anchored in the entrepreneurship literature, but neglects knowledge accumulated about actors participating in these economic territories, particularly informal and renegade ones. Accordingly, it is interesting to examine how Webb et al.'s (2009) work is supplemented by research dedicated to actors behaving illegally.

### Crossing actors and economic territories

A substantial amount of research investigates the reasons why legal organizations behave illegally (see, for instance, Mishina, et al., 2010). Following the Enron and Worldcom scandals, researchers explored corporate fraud schemes and institutionalized corruption that can be considered illegal and illegitimate as regards their means and ends. Such activities characterize the renegade economy. These practices indicate that Webb et al.'s (1999) typology is based on entrepreneurial activities and not on distinctive features of organizations: a legal organization can operate in the formal economy with some hidden activity in the informal or renegade economies.

Researchers have also studied the other extreme type of organizations: those renegade ones that use illegal and illegitimate means to reach illegal and illegitimate ends. Sociologists, criminologists and economists have examined how such renegade organizations manage their illegal activities (Levitt & Venkatesh, 2000; Goodman, 2011). Interestingly, very few works explore and explain whether and how such organizations inter-relate with the informal and formal economies. Table 1 summarizes the main gaps in our knowledge, placing organizations in two extreme categories: legal and renegade.

**Table 1.** Research linking actors and economic territories

	<b>Legal firms (legal means and ends)</b>	<b>Renegade firms (illegal and illegitimate means and ends)</b>
Research area with numerous works	Activities in: - the formal economy - the informal economy - the renegade economy	Activities in: - the renegade economy
Research area with few works		Activities in: - the formal economy - the informal economy

The few works linking the legal economy and renegade organizations show that actors and territories are intertwined to an amazing extent. For instance, what we know about the activities of mafias highlights their influence on the boundaries of legal/illegal, legitimate/illegitimate economies. Groups classified as mafias are the most sophisticated renegade organizations: these closed, ritualistic "families" with vast power, anchored in the history of a country, survive or revive when their head is removed, as opposed to most other renegade organizations (Raufer, 2003). These groups are often categorized as specialists in illegal traffic: in drugs, weapons, or human beings. However, recent research (Monnet & Very, 2010) has shown that they simultaneously manage legal activities using either legal, or illegal yet legitimate (e.g. undocumented workers), or even illegal and illegitimate, means (e.g. physical violence). Consequently, a mafia can operate inside the renegade, informal and formal economies at the same time. The activities of such organizations, which are perceived as the pure

type of renegade actors, stray beyond the confines of the so-called renegade economy.

In sum, any economic organization starts from its home base (formal, informal or renegade economy), which is determined by the status of its initial activity (legal/illegal; legitimate/illegitimate). Then, the organization can leave its home base in order to navigate other economic waters. Consequently, conducting research from an actor's perspective can advantageously complement the entrepreneurial activity lens. We need also, however, to theorize and research at the level of the organization; we need to become organizational theorists, investigating the boundaries of legality and legitimacy.

### **Varieties of born-renegade organizations and their survival**

In line with the above arguments, we call "born-renegade organizations" those whose initial activity is located in the renegade economy. These include drug cartels, gangs of street dealers, mafias, sea pirates, counterfeiters, cybercriminal groups, etc.: at first glance, a broad range of organizations can correspond to this description. However, a detailed analysis underlines the difficulty involved in classifying these organizations according to the legality/legitimacy framework. For instance, organizations selling counterfeited copies can be classified as outlaws in a country if and only if there is a local law protecting property rights. This means that the legal/illegal character of an organization's activity depends upon, among other factors, the existence of a local law and the observer's position: an insider viewpoint can differ from an outsider perspective. Moreover, the actions of sea pirates, considered as illegal in many countries, are regarded as legitimate in Somalia by poor local populations who see them almost as heroes in this lawless country. Japanese Yakuza organizations practice extortion on their territory but at the same time anchor their legitimacy towards local populations by contributing to socio-economic order: for instance, they help people to find jobs and arbitrate private disputes (Kaplan & Labro, 2003). In spite of their engagement in illegal activities, these organizations succeed in acquiring legitimacy from local social groups. These examples show that the classification of organizations in relationship to the legality/legitimacy framework is complex and depends upon the position (inside or outside the economic territory) and social group of the observer. Legitimacy is a social construct. Researchers should therefore be cautious with this issue and clearly outline the level of their analysis – activity or organization – and the researcher's perspective in order to characterize the object under study.

These examples also raise questions about the strategies implemented by "renegade-born" organizations in order to survive over the long term. In line with a set of anecdotal records, we could assume that the resilience of organizations that manage illegal and illegitimate activities is influenced by their capacity to gain legitimacy from the most important social groups living in their economic territory. As renegade firms are generally perceived as evolving inside the renegade economy, this question is not readily addressed. There are some examples from research into terrorist organizations (Mayntz, 2004; Schneckener, 2002, Della Porta, 1995, Sullivan-Taylor & Wilson, 2010). Here, the major findings indicate that many terrorist (illegal) organizations resemble legal firms in terms of structure (a blend of hierarchy and networks), and tend to have small concentrated and geographically focused headquarters which can mobilize other networks (which are both legal and illegal) globally. Influence over legal organizations (such as governments or other organizations) can be seen as a quest for illegal organizations to strive for legitimacy, and this quest could help explain moves in the informal and formal economies, and could contribute to a better understanding of the interactions with organizations operating in these territories and with the institutions in charge of their regulation.

### **Influence of born-renegade organizations on the formal economy**

Among the few scholars dealing with this topic, Monnet & Very (2010) take an actor's perspective and analyze how renegade organizations threaten the formal economy and its legal companies. One interesting finding resides in the identification of a specific ability on the part of mafia families: they succeed in deploying illegal and illegitimate means such as violence within the formal economy. The use of intimidation and violence aims at weakening legal competitors who respect institutional competitive rules. Through such means, renegade organizations can predate legal markets and even legal companies as long as they succeed in avoiding prosecution. This finding leads to two conclusions. First, in the context of weak law enforcement, defining the formal economy as the territory of legal and legitimate means and ends appears too simplistic. In this institutional context, organizations can seek the same goal, namely market domination, while competing with diverse means. Since it is quite difficult to conceptualize an economic market divided between two economic territories, the formal and the renegade, the boundary between economic territories becomes blurred when the law cannot be enforced. It even becomes impossible to conceive the three economies as a scale going from the more legal and legitimate economy to the more illegal and illegitimate one. Direct linkages seem to exist between entrepreneurial activities pertaining to the renegade economy and those attached to the formal economy. Research dealing with these linkages could help increase our understanding of the interweaving and possible co-evolution of economic territories.

Secondly, we do not know much about the strategies developed by born-renegade firms inside the formal economy in order to generate economic rents. Some organizations simply aim to seize valuable resources belonging to companies: for instance, they kidnap managers and ask for a ransom, they practice extortion, or they steal products; others create or control legal companies and fight against legal competitors for market control. In addition, organizations such as drug cartels penetrate the formal economy without seeking to extract rent from it: they develop "parasitism" strategies, as in the case where they discreetly use the logistics of legal companies to organize drug transportation (Monnet & Very, 2010). Rent is generated from illegal trafficking. Accordingly, operations inside the formal economy can be one-offs or permanent; they can target organizations or markets; they can hurt legal organizations more or less seriously. A deeper understanding of these born-renegade organizations and their intrusive strategies is required in order to design solutions that can be implemented to fight them.

### **Synthesis and essays**

The above reflections aim to identify research issues and avenues that would be worth exploring. These are summarized in Table 2, together with the focus of the three essays following this introduction.

**Table 2.** Proposed research agenda

	<b>Description</b>	<b>Essays</b>
Research issues	Definition of the level of analysis: activity or organization? Definition of renegade and/or illegitimate organizations	
Directions for future research	Legitimacy and survival strategies of illegal organizations	Monin & Croidieu
	Influence of renegade and illegitimate organizations on the evolution of the formal economy	Durand & Vergne
	Influence of organizations operating simultaneously in several economic territories (formal, informal, renegade) upon the boundaries between these territories	
	Organizational forms and competitive strategies of renegade organizations operating inside the formal economy	Duplat, Very & Monnet

We need to accumulate knowledge about the illegal or illegitimate organizations that influence and penetrate the formal economy, as they shake the institutional foundations of our economic system. We know little about how such organizations interact with legal organizations, legal markets and the apparatus of the state; we cannot yet demonstrate how these inter-relationships might, over time, re-define what is taken to be legal or illegal, legitimate or illegitimate. Each of the essays in this issue does precisely that, taking a different stance and revealing different aspects of these complex relationships and definitions. We asked three well-known research teams to produce a short essay about the topic, and, as readers will see, we gave them a great deal of freedom in terms of writing style. We thought the authors' voices should take precedence over any editorial restrictions.

Durand and Vergne explore the influence of specific organizations, called pirates, on the boundaries of capitalism. Such organizations promote a cause that challenges the normalizing will of the state on the most deterritorialized fringes of the socio-economic system. Their overall goal is to change and perhaps extend the established systems in advanced societies. The authors explain how pirate organizations contribute to the evolution of socio-economic systems. They also show how pirate organizations can have different impacts and influences in different institutional contexts and times so that what is considered legal and necessary in one country may not be defined as such in another country or at another point in time.

Monin and Croidieu examine the strategies implemented by organizations operating in the renegade economy in order to develop and reinforce their legitimacy. They also study the case of organizations that seek to regain legitimacy when their initial activity becomes illegal. The fluidity of what is considered to be legal and legitimate is explored in this paper and the importance of time and history is emphasized, showing, for example, how what is considered to be legal at one time (they cite slavery as an example) can become illegal through changes in law and regulations. The result is a complex fragmentation over time of what is considered legal or legitimate, and an almost systematic quest for legitimacy characterizing organizations operating illegally.

Duplat, Very and Monnet explore the entrepreneurial activities of mafia families inside the formal economy. They study the governance of legally registered mafia firms, those organizations owned and managed by the mafia that are legally registered and operate in legal markets. Mafia families generally manage a federation of small, legally registered mafia firms. The authors show that governance issues need to be analyzed at the level of the federation and they identify four specific governance mechanisms. They then show that some of these mechanisms, such as violence and corruption, are also utilized as competitive arms for penetrating markets to the detriment of conventional organizations.

Overall, these essays investigate some of the research routes that we have identified. They deal with the grey areas of organizations and socio-economic systems. They show how legitimacy and legality both differ and inter-relate over time and how capitalism imposes systems and structures which empower the few and exclude others. They show that organizations operating at the margin of legitimacy and legality influence the boundaries of the whole system and its content. These under-researched areas unquestionably deserve greater attention from organization theorists and other social scientists.

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