

CHAPTER III  
ORGANIZED CRIME AS A BUSINESS ENTERPRISE

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I. Introduction

A key assumption in organized crime policy is that behind particular criminal offenses lie criminal organizations - larger than single individuals, and more durable than any particular criminal offense. Indeed, it is precisely this assumption that distinguishes organized crime from other sorts of crime such as street offenses or white collar crimes.<sup>1</sup> It is also this characteristic that is alleged to make organized crime a particularly significant social problem - more important than many other kinds of crime problems. This conclusion is reached via two different arguments.

The most common is that organized criminals are particularly bad (compared with other sorts of offenders) because their organization allows them to commit crimes of a different variety, and on a larger scale than their less organized colleagues.<sup>2</sup> Thus, for example, criminal organizations may succeed in extorting money from labor unions or in importing tons of cocaine, whereas less organized offenders could do more than rob a convenience store, or sell some legitimate drugs stolen from a pharmacy. In this reckoning, the problem created by organized crime is found in the substantive criminal offenses that are committed, and the special importance of organized crime is derived from the fact that organized criminal groups can do worse crimes, or do the same old crimes on a grander scale, as a result of their scale and durability.

The second argument finds the problem of organized crime not in any special characteristics of the substantive offenses committed, but instead in features of the group itself.<sup>3</sup> In this calculus, what is bad about organized crime is that the criminal groups seem resistant to law enforcement measures, that they seem to become rich as a result of their crimes, that they coolly calculate how best to make money without worrying about whether a planned enterprise is illegal and violent, and that they threaten additional criminal activity in the future even if their current conduct is tolerable. In short, it is the stance of the criminal group with respect to the rest of society that makes the organized crime problem particularly pernicious. The policy goal, then, is to weaken and frustrate the enterprises rather than control their criminal offending.

Both arguments justify a special interest in organized criminal activity. The distinction between them is nonetheless important because the second argument would justify a special concern about organized criminal activity regardless of the significance of the substantive criminal offenses committed. The organized crime groups would

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pose a threat to the society even if they were engaged largely in legitimate activities, and even if their criminal activities produced relatively insignificant levels and kinds of victimization.

Increasingly, it seems that organized crime policy is guided by the second argument rather than the first. The significant new legislation directed at organized crime, the Racketeering Influenced and Corrupt Organization law, makes the on-going capacity of a criminal organization the principal target of legislative action rather than specific substantive offenses.<sup>4</sup> Similarly, the society seems to be very concerned about the involvement of organized crime groups in legitimate businesses, even when it seems that the legitimate activities are drawing off capital and managerial talent that would otherwise be used for illegal activity, and strengthening rather than weakening the financial performance of the legitimate firms.<sup>5</sup> In effect, society's focus seems to be on the organized criminal offenders rather than their offenses.<sup>6</sup>

This focus has implications for research on organized crime as well as policy, for it moves the question of the on-going capacities of the organized criminal groups to the center of the society's concerns. A potentially useful way of looking at organized crime in these terms is to think of organized crime as a business firm that operates with its own "corporate strategy."<sup>7</sup> This perspective is a little different than either the "institutional" tradition that viewed organized crime as a relatively static institution with elaborate structures and rituals but no particular purposes that it pursued, and the "economic" tradition that viewed organized crime as an efficient device for exploiting a particular market opportunity.<sup>8</sup>

If researchers think of organized crime groups as business firms pursuing a "corporate strategy," their focus shifts in interesting ways. First, this approach emphasizes the significance of these groups as powerful enterprises quite apart from the specific crimes they commit, since it focuses on their assets and their potential rather than the particular nature of their current activities. Second, it focuses attention on the dynamics of organized criminal enterprises: i.e., how they will respond to pressures and opportunities rather than viewing them in static terms in which shutting down on activity is expected to eliminate the problem. Third, in thinking about these matters, this approach makes available to us much of the descriptive and prescriptive research on how organizational leaders decide on a "corporate strategy." The insights from this literature may allow us to make improved judgments about the basic strategy of the organized criminal groups, their current vulnerabilities, and the ways in which they are likely to respond to new environmental risks and opportunities. In any case, that is the purpose of this paper: to see what can be seen by looking at organized criminal groups from this perspective. Before we turn to that problem, however, a prior issue must be cleared away: namely, the definition of the firm to which the analysis will be applied.

## II. Illegal Industries and Organized Crime Firms

Organized crime research and policy has been hampered by the failure to distinguish between illegal industries and activities (such as gambling, narcotics, prostitution, loansharking, and extortion) on the one hand, and criminal firms (such as the "Gambino Family" or the "Hell's Angels") on the other. In general, we have assumed the industries and the firms were coterminous - with a particular firm

monopolizing not only one but several illegal industries in a given geographic location. Recently, we have come to understand that the illegal industries are not necessarily monopolized.<sup>9</sup> Moreover, it seems that the internal structure of even the most well-defined criminal groups is relatively fluid. It seems that the members of organized crime groups have broad licenses to engage in certain kinds of illegal activities and to draw on some of the resources of the larger group, but they are not directed or controlled in detail by those at the top of the organized crime groups.<sup>10</sup> These findings complicate our mental images of how an institutional structure is super-imposed on illegal (and legal) industries. To clarify the issue, it is worth setting out some alternative images of the "industrial organization" of illegal activities.

The simplest and most common conception is that illegal industries are controlled by a single criminal firm with a tightly organized command and control system that directs its members efforts to the efficient production of illegal goods and services. The model here is one of a tightly organized criminal monopoly with a fixed, detailed operating strategy master-minded by those at the top, and dutifully carried out by battalions of soldiers whose loyalty is maintained by paying them reasonable shares of the total revenues of the enterprise, and by the promise of advancement to higher ranks where greater economic rewards and security from arrest and attacks by other criminals can be found.

There are many reasons to be suspicious of this conception. As noted above, there is a great deal of evidence indicating that illegal industries are not monopolized by a single firm. But even leaving this point aside, it seems very unlikely that the internal control system of an organized criminal enterprise would be as elaborate and as controlling as the one described above. To have such integrated, tight control over operations would require an enormous flow of information up and down the chain of command. Agreements would have to be struck about specific "business plans," systems for monitoring performance would have to be created, records would have to be kept to insure fairness within the firm, etc.<sup>11</sup> Obviously, for an illegal enterprise, this flow of information and records constitutes an enormous hazard since it makes the enterprise much more vulnerable to effective prosecution.

But recent experience with business management suggests that such an organization creates important business liabilities as well.<sup>12</sup> It tends to make the enterprise too dependant on the knowledge and judgment of the top managers, and wastes the knowledge and initiative of subordinate managers who know more about their own capabilities and how they fit into a local environment of risks and opportunities. As many legitimate businesses have discovered, it is often economically valuable to decentralize their operations and push more strategic decisions about new investments and operational changes to lower levels in the organization. This has the advantages of minimizing overhead costs, of exploiting the information available at lower levels of the organization more quickly and reliably, and of encouraging the initiative of ambitious and competent lower level managers.<sup>13</sup>

If decentralization is a virtue in criminal firms for reasons of both security and business, then the wisdom of a second institutional model becomes apparent. This second institutional model would retain the notion that a single firm monopolized the illegal activities, but it would assume a much looser internal structure for the firm. In effect, we could think of a diversified illegal conglomerate. The center of the organization would not be the source of a particular strategy to be implemented through specific business plans imposed on subordinate managers. Instead, it would

be an institutional mechanism for gathering and distributing capital and other specialized resources for the benefit of subordinate units. The subordinate units could then concentrate on formulating and executing specific plans for earning returns for themselves and the center. Such an organizational structure would dramatically reduce the flow of information between the center and the specific operating units, and therefore enhance security against prosecution. Nonetheless, the firm could retain many of the advantages that come from scale and monopoly - namely, the opportunity to develop and efficiently use specialized resources, and to keep prices high by eliminating competition. It would be almost as if the central organized crime group distributed franchises to the lesser members of the group, but depended on these others to figure out the best ways to exploit and develop the local opportunities included within the franchise.<sup>14</sup>

A third model of the institutional structure would weaken the control of the center still more. Indeed, it would essentially make the center disappear. The model I have in mind is something like the institutional structure of the real estate development business. The notion is that a great deal of illegal activity within the illegal industries is not routine production and distribution carried on under the auspices of a specific firm, but instead the result of many ad hoc deals and projects. Sometimes the illegal firms organize a poker game. That continues for a while, and then ends. Other times they organize an elaborate fraud scheme that is perpetrated once, but not repeated for a while. Sometimes they organize a series of truck hi-jackings, but then stop - perhaps when an inside source becomes too vulnerable. Sometimes they get together a big drug deal, and maybe do it twice, but then stop to avoid attracting too much attention from other dealers or the police. In short, the firms are not consistently in one business, but intermittently in several. They are not organized as a "production line," but as a "job shop."

Viewed from the outside, the whole industry might produce a great deal of activity that seems organized. If one were to look at the skyline of Boston, for example, one could see that it developed along inexorable lines established by economic opportunities. Similarly, if one were to look at the gambling or narcotics business from the outside, it might look large and organized. If one were to look behind the real estate development, however, one would find no single firm controlling it. Instead, one would find partnerships formed around specific projects. The partnerships would often continue for a while, and occasionally would become integrated firms, but most of the development most of the time would be carried on by relatively small, short term institutional arrangements. Similarly, if one were to look behind the gambling or narcotics or loan-shark business, one might find a diversified institutional structure.

Now, it probably matters that individuals stay in the real estate development business for a while. They develop skills, reputations, and relationships with others in the same business that facilitate the creation of formal arrangements to carry out specific developments. Consequently, over time, they may accumulate a larger share of the total activity. Similarly, it probably matters that specific individuals stay in the gambling, narcotics, and loansharking business for the same reasons. So the point is not that there is no structure or concentration in illegal enterprises. The point is that the real capacity to do business is embedded in individuals rather than in larger institutional structures, and that the larger institutional structures form around specific projects that are limited in time, and are smaller than the industry

as a whole even within one geographic area. In short, it is a world of partnerships rather than productive companies.

A fourth model takes this conception of a decentralized institutional structure based on personal rather than institutional capabilities one step further. This model sees organized crime not as a firm, and not as a series of more or less long-lasting partnerships, but instead as nothing more than a professional association of criminals. In this conception, what is important is that many offenders are part of a general criminal milieu - the underworld. Within this professional association, individuals have reputations for trustworthiness, skill, certain kinds of special competences, even levels of responsibility with which they can be entrusted. And these reputations give a certain structure to illegal enterprises. Some people are more likely to work with one another than with others, and certain kinds of activities will be favored over others. But the point is that there is no structure apart from the individuals.

What is important about these different conceptions of the institutional structure lying behind (or superimposed on) the illegal industries is that they have very different implications both for identifying the "firms" within the industry, and assessing their importance and vulnerability. Essentially a "firm" is defined as some person or institution with the ability to commit a particular set of assets to specific purposes.<sup>15</sup> The control over assets, and the ability to deploy them seems to be crucial to the definition. This is also crucial to our judgment for the character and magnitude of the threat represented by organized criminal groups. The larger the stock of assets they control, and the greater their control over the assets, the greater the threat they represent. The assets are particularly important in this regard for they establish both the capacity of the firm to absorb losses and punishment, and their ability to make trouble on a large scale if they choose to do so. If the significance of an organized crime group is tied to the assets they control, then it should be clear that the more decentralized the illegal industries, the less significant is the difference between organized crime and other kinds of criminal activity, and the less leverage law enforcement can expect to exert by immobilizing any particular firm. In effect, the lower the concentration in the illegal industries, the less formidable and significant the criminal firms that law enforcement confronts. This makes the question of the organization of the illegal industries quite important not only for defining firms for purposes of research and analysis, but also for the design and evaluation of enforcement strategies.

At the outset, it is by no means clear that the centralized models of illegal industries such as gambling, loansharking, and narcotics are the correct ones. On theoretical grounds, it seems unlikely that the highly centralized and monopolistic models will be the correct ones; the relatively decentralized or loosely coupled institutional arrangements seem by far the more likely. What little empirical evidence exists in this area also supports the view that the relatively de-centralized models are the appropriate models.<sup>16</sup>

### III. The Assets of Illegal Firms

To the extent that concentration occurs in the illegal industries, it is likely to be built around control over particular assets that have natural economies of scale. Three such assets seem particularly important.

The first is a capacity (and reputation) for irresistible violence.<sup>17</sup> A capacity for violence is crucial to the success of an underworld firm for at least three reasons. First, it allows the firm to conduct its business and hold on to its earnings without losing too much to other criminal offenders who would otherwise take advantage of them.<sup>18</sup> Second, it is a crucial instrument of internal discipline and control that guards the firm against effective investigation and prosecution.<sup>19</sup> And it can be used to intimidate and drive out competition. Reuter has also shown that the reputation for violence is even more valuable than the capacity to undertake violence since the reputation produces many of the desired results with few of the bad consequences of really having to use violence.<sup>20</sup>

It also seems likely that both a real capacity for violence and a reputation for violence possess economies of scale. The reason is that an underworld firm needs a clear perception of a predominant and overwhelming power to exploit its reputation for irresistible violence. If other firms imagine that their capacity for violence approaches that of the dominant firm, they will be tempted to test their capacity against that of the dominant firm. Violent encounters between closely matched competitors result in very bad consequences for both firms. It is in this sense that there are economies of scale in violence and reputation: once a hegemony is created, it tends to frustrate the creation of alternative sources of violence by deterring or attacking its development, and by producing the benefits of certainty and predictability for those who must operate with the constant threat of violence from many competing sources. This does not mean that there will never be competition for the dominant position - only that most of the time the dominant position will be held relatively securely with only intermittent challenges. Probably this is the strongest factor tending toward concentration in illegal industries, and a crucial asset to be created and maintained by organized criminal enterprises.

A second crucial asset that may become concentrated in the hands of a single criminal enterprise is the capacity to corrupt or suborn enforcement personnel (including prosecutors and judges as well as police). It is important to see that the capacity to corrupt enforcement agencies is important for the same reasons that violence is important. After all, the illegal operations of a criminal enterprise are as vulnerable to "violence" and "theft" by the state (called enforcement) as they are to violence and theft by other criminals. And it is exceedingly unlikely that the state's violence can be successfully resisted by violence from the criminal enterprise. In any violent showdown, the state will win by an overwhelming predominance of force. If the criminal firm's continuing capacity to make money is to be protected from the state, then, the only feasible way is through corruption.

Whether there are economies of scale in corrupting enforcement officials (and therefore a centralizing force) will depend a great deal on the organization of the enforcement agencies.<sup>21</sup> If enforcement powers are concentrated in a single agency; and if there is effective command and control within that agency from the top; and if the head of the agency can be corrupted by a criminal enterprise, then that capacity for corruption will be a powerful centralizing force in the illegal industry. Not only the criminal firm that secures this asset have protection for themselves, they will also be able to use the enforcement agency to assist them in eliminating competition. The enforcement agency will be paid off not only in a share of the revenues from the illegal activity, but also in the appearance of success through arrests and prosecutions of the dominant firm's principal competitors.

If, on the other hand, many different enforcement organizations have jurisdiction over the crimes committed by the illegal firm, or if the individuals who work for the enforcement agencies cannot be effectively controlled from the center (either to guarantee their integrity or their disciplined corruption), then there will be fewer economies of scale in corruption, and control over this asset will be a less centralizing force. The reason is that the crucial factor of production that is the aim of corruption - namely guarantees against the violence of the state - will suddenly be in the hands of many particular individuals, each of whom controls a piece of the State's threat to criminal groups, and none of whom controls an appreciable component of the overall threat from the state. In this situation, many firms may win "local licenses" for limited purposes by corrupting individual officers, but no one will be able to claim an exclusive illegal State franchise for their operation. Consequently, monopoly in the illegal industry is less likely.

A third asset which may produce economies of scale (and therefore lead to higher degrees of concentration in the illegal industries) is control over capital. Large chunks of capital are probably scarce in illegal enterprises for several reasons. First, not everyone with money to spare is willing to invest it in illegal activities even if the promised return is very high. Quite apart from the moral inhibitions, one might reasonably worry about his capacity to collect money from borrowers who possess capacities for substantial violence. Second, because of the limited capacity to enforce contracts and trust one another, it is likely that most transactions will be in cash, and few people accumulate substantial sums of money in cash. If money is held in a bank and turned into cash, it attracts scrutiny from enforcement agencies.<sup>22</sup> So, the most likely accumulations of capital will be among those who are already engaged in illegal businesses that produce large amounts of cash. This means that concentrations of the sort of capital that is useful in large scale criminal enterprises will appear only among those who are already engaged in large scale criminal enterprises.

Note that the assets we have discussed so far are fungible across a great many different kinds of illegal businesses. Violence, corruption and cash, are as valuable in gambling operations as in narcotics, or for that matter, as in large scale truck hi-jacking operations. The fourth asset that might encourage some degree of concentration in illegal industries is clearly tied to specific businesses: that is, accumulated operating experience within a particular business. It seems that everything improves with practice, and there is no reason to believe that illegal businesses would be any different in this regard than anything else.<sup>23</sup> The more experience one has in gambling, narcotics, loansharking, extortion, fraud, or large scale thefts, the better a firm is likely to become in terms of its ability to earn revenues and reduce risks from other criminals or enforcement agencies. The better it gets, the stronger its competitive position, and the greater its opportunity to improve its market share. In this respect, one would expect experienced firms to control a larger share of the total illegal activity in an area than less experienced firms - at least until age, fatigue, or complacency catches up with the enterprise.

Thus, control over assets such as a capacity and reputation for effective violence, an illegal license to operate gained through corrupting an enforcement agency, large concentrations of cash, or lengthy operating experience in a particular illegal enterprise will equip criminal firms to operate successfully over a sustained period of time in illegal businesses. In effect, these assets constitute the wealth of illegal firms that

allow them to absorb losses and make plans for the future. And insofar as they can make and carry out plans for the future, they can attract and win the loyalty of the people who make up the firm. Moreover, because some of these assets seem to produce economies of scale in operations, control over these assets may lead to some degree of concentration in illegal industries. The firms that have these assets will be able to dominate the local illegal industries. The value of illegal firms resides in their ability to hold onto, deploy, and increase these assets. This, in turn, depends on their ability to keep increasing (or hold onto a dominant) market share.

#### IV. The "Strategies" of Illegal Firms

The question of how best to deploy the current assets of a firm so as to maximize the chance that the firm will survive and continue to make money is the question to which the concept of "corporate strategy" is supposed to provide an answer for legitimate businesses. What is essential to this concept of "corporate strategy" is that the managers of the enterprise somehow recognize and integrate in their thinking and plans the following facts. First, that there are some particular things that their organization now does very well that are providing the wherewithal even to think about the future. Second, that the environment may be changing in ways that will increase or decrease the value of their current, particular core operations, and that create new opportunities for the more or less particular assets of the firm. Third, that there are opportunities to change the balance of activities within the firm by dis-investing in current operations, or by investing in new operations. The investments can be internally financed by profits, or cash generated by dis-investing in old activities, or the sale of existing activities. Or, the investments can be externally financed through borrowing or selling equity in the firm. Moreover, the investments can take the form of investments in the hardware of plant and equipment, or the software of people and relationships within the firm. Fourth, a crucial asset of the firm is often the individual and combined capabilities of the people who work for the firm, and that preserving this asset may require rewards in both financial and status terms, both now and in the future. Indeed, it may be that the activities of the firm have to be configured around the people rather than the market opportunities. Fifth, since their judgments about all of these factors are likely to be wrong, and because the environment will change again, there are substantial long run benefits from being able to adjust. This means that fungibility and flexibility are often as valuable as the efficient deployment of assets to accomplish a particular goals as efficiently as possible.

In principle, it might be possible to include all of these concerns in a rigorous calculation. In practice, managers operate by rules of thumb, and an aesthetic sense of how their operation can be fitted into a future that is only dimly perceived. Since those who manage illegal enterprises must solve these same strategic and organizational problems, in thinking about how illegal firms survive and grow it might be valuable to understand those rules of thumb as they apply to illegal enterprises. In effect, we are looking for the basic rules that might guide the strategists of illegal enterprises - assuming they exist at some scale.

Perhaps the most basic rule for all corporate strategists is that they should protect and enhance the assets of the firm. This is slightly different than the notion of maximizing profits. In terms of financial statements, it means one keeps



one's eye on changes in net worth rather than profits and losses within a given year. Changes in net worth may be more important than profits and losses within a given year because it is the wealth of the firm that is most closely related to its long run ability to survive and continue to make money. Moreover, in assessing the assets of the firm, liquid assets are potentially more valuable than less liquid ones. This is particularly true in an environment that is changing rapidly.

The implications of this principle for illegal enterprises are the following. First, they should probably pay close attention to what is happening to their capacity and reputation for disciplined and irresistible violence. That is their most valuable and flexible asset. Its value will be weakened if it weakens in either absolute or relative terms. Preserving and protecting this asset is their key to success. Second, they should also be keeping track of the value of their stock of licenses to operate granted by corrupt agencies. Their aim should be to bring more and more of those who could attack them into a corrupt relationship, and to broaden the licenses to include more diverse kinds of businesses. Again, they should measure performance in this area as both an absolute and relative matter. They should be after broad secure licenses for themselves, and none for their competitors. Third, they should be accumulating cash. These are the crucial liquid assets that allow the enterprise to survive and adapt.

The second basic principle for corporate strategists is that they should exploit the distinctive competences of their firms. This is where the emphasis on performance and certainty is more important than the idea of fungibility and hedging against uncertainty. What this means for illegal firms is that they should continue and expand those activities that they are now performing well. To the extent that they have developed capacities for disciplined and irresistible violence (and gained enough scope to utilize this asset through the successful corruption of enforcement agencies), they can probably find additional targets from which to extort money. To the extent that they have accumulated operating experience with businesses such as gambling and narcotics (and bought room for these operations through corruption), they should expand these operations and take advantages of economies of scale and a dominant market position.

A third basic principle for corporate strategists is that they should disadvantage their competition. One of the important ways that this is now done in the legitimate sector is by using government regulations to disadvantage their competitors relative to themselves.<sup>24</sup> Government regulation may threaten all the industries in a firm, but from the point of view of a strategist, the important thing is to make sure that it disadvantages the competition more than one's own enterprise. This has obvious implications for illegal enterprises. An important ploy should always be to focus the attention of the government enforcement efforts on others. This can be accomplished directly by informing on the competition. Or, as we have seen, it may be part of a corrupt arrangement between the enforcement agencies and one illegal firm.

A fourth basic principle for corporate strategists is to minimize their exposure to government taxation. For illegal enterprises, this means minimize exposure to the threat of criminal punishment for their activities. In the legitimate sector, one minimizes tax liabilities by staying out of businesses that are taxed heavily, by managing ones operations to take advantage of tax loopholes, and by disguising taxable items as not taxable. In illicit businesses, a strategist can do the same thing by avoiding substantive crimes that seem to generate a great deal of enforcement

attention; by managing operations to minimize communications, records, and contacts with strangers (which are the principal ways that enforcement agencies develop cases against the illicit firms); and by disguising illicit activity as legitimate activity. Indeed, this last device (covering illicit activities as legitimate activities) seems to be one of the principal reasons that illicit firms choose to have some legitimate activities in their portfolios of activity. Some relationships and transactions that are fundamental to illicit activities can be created and sustained under the "front" of legitimate, constitutionally protected activity.

The fourth principle is to make sure that one knows who the strategically important people in one's operation are, and that one has bound them to the organization by keeping them happy in the present, and guaranteeing them opportunities for greater wealth, status, and independence in the future. A corollary of this principle is that if it seems likely that some of the key people will leave, it is important to be developing their replacements, although that, of course, might increase the likelihood that they will leave. In the legitimate sector, these needs are usually handled by paying people higher salaries, and by establishing personnel systems that promise tempting careers to key employees, and also guarantee some effective internal competition. In the illicit sector, there are problems with respect to current pay, and future opportunities. The central problem with current pay is that it may be hard to consume the benefits of profits earned in the short run without raising questions about the source of the income. This, again, is where a legitimate enterprise comes in handy. If money earned in illicit activities can be forced through an apparently legitimate activity, the money becomes available for short run use in consumption by the offenders. If there are no legitimate businesses to explain why someone has a great deal of money, it cannot be used for consumption. The restriction against consumption helps with respect to the task of accumulating cash capital for additional investments. But it creates a problem in terms of the firm's ability to guarantee the commitment of its principal subordinates, since it cannot provide them with current returns. With respect to guaranteeing the future of one's employees and building up replacements, the problem is that the organizational structures within which people earn their current money and make their careers are probably less firmly established. A reputation for scale and durability in the enterprise can stand as a general proxy for a particular career path, and this might turn out to be another way in which large, durable criminal enterprises have an advantage over smaller, more transient ones. But the point is that illegal firms may have greater difficulties in binding their employees to them than legitimate firms. Indeed, it may be precisely for this reason as well as security that the groups seem to build around ties of kinship and ethnicity as well as economic interdependence.

#### V. Implications for Enforcement Strategies

If the rules set out above are those that will allow criminal organizations to survive and grow, and if the principal aim of organized crime policy is to weaken these groups because they are bad in themselves, or because the criminal offenses they generate are worse if the firms are large and powerful, then these rules ought to indicate how the groups might be most effectively frustrated and attacked. Four different principles for law enforcement might be derived from this analysis.

The first is that it is crucially important to improve the quality of the intelligence about the institutional structure that lies behind the illegal industries. One must be able to distinguish the industry from the firm, and the firm from the individuals who comprise it. The essential thing to learn is who controls access to and use of the important assets that constitute the firm, and are being relied on to run particular businesses.

My hunch is that we will discover that the crucial assets guarded by those who seem to be at the top or at the center of the organizations are control over violence and corruption, and that those assets will be held personally rather than collectively. It is also possible that the center holds some legitimate front operations useful in disguising illegal activities, and in creating the equivalent of a personnel system to make it possible for key subordinates to spend their money, and to determine their relative status in the illegal enterprise. It seems unlikely to me that the center of the organizations will control any specific skills in particular illegal activities. Their job is to guarantee the future of the others.

It is also likely that there will be some firms engaged in activities that we often think of as organized crime type activities that are smaller and less differentiated - in effect, where the assets are all embedded in a particular individual. There will be independent bookies, narcotics dealers, and loan sharks as well as those who are more or less integrated into an organized criminal firm.

In any case, it will be important to build up images of the institutional background not by looking to see what "offices" people occupy, but instead by trying to determine what functional capabilities they represent, and what partnerships and relations seem to exist among the individuals. It is important to know how assets or functional capabilities are distributed among individuals, and how they are fitted together in partnerships, since that will answer the question of which individuals might be particularly important to immobilize through enforcement. That might or might not be the "top guy" depending on how transferrable the assets he possesses are. It might be that there is somebody who has a specialized competence for violence, corruption or drug deals who is fitted into a variety of different deals, but never in an obvious leadership role, and that person might be more important to attack than anyone else. Indeed, it seems interesting in this respect that many of the most important organized crime cases have been facilitated by "hit men" who might be a crucial and widely used resource.

The second principle follows from the first. The targets of enforcement action should be the people in whom particularly important and hard to replace assets are embedded. My hunch, again, is that these will be the individuals who can deploy disciplined violence and corruption. These are the key resources because they are the ones that are valuable across a wide array of illegal activities, and therefore extremely valuable no matter how dynamic and uncertain the environment.

The third principle is that when an analysis of the industry structure reveals a large scale firm that is operating on the basis of experience in the business without much protection in the form of either violence or corruption, that firm should be an important and easy target. It is important because it is producing a lot of crime, and generating concentrations of capital. It should be an easy mark to both law enforcement and criminals because it has no protection other than its own expertise. One should not expect to find this situation very often, however. The firms that are

large will have protection. The firms that are relying only on expertise will be relatively small and transient.

The fourth principle is that one should be prepared to use smaller scale, more ambitious competitors to attack the dominant firms. The corollary is that one should be particularly careful to be sure that the enforcement agencies are not being used (wittingly or unwittingly) as the agents of the larger firms to bolster their market position. Competitors are terribly important in enforcement efforts seeking to frustrate the growth and development of illegal firms for two different reasons. The first is that they have the incentive and the capability to supply information to enforcement agencies about the operations of the dominant firm. Consequently, they can help enforcement agencies immobilize the larger firms. The second is that they can take some of the illegal industry away from the dominant firm, and thereby weaken them. Obviously, the best of all worlds is one in which there are no illegal firms. But, if there are going to be illegal firms, and if our policy objective is to weaken them as much as possible, it may be better to have several smaller firms than a few large ones. If this reasoning is correct, it follows that it may be important for enforcement agencies to help the smaller firms attack the larger - at least until the smaller firms become threateningly large. I recognize that this creates troubling ethical issues for enforcement agencies that have so far been obscured.

This leads to the last principle. In thinking about the overall objectives of organized crime policy it is probably better to think in terms of dissipating and regulating the illegal firms as they arise and operate rather than eliminating them altogether. The fact of the matter is that there is always money to be made in illegal activities. And there is more money to be made over a longer period of time if an organization can not only learn how to commit crimes without being detected by the police, but also develop sustained capacities for crime through investments in disciplined violence and corruption. These opportunities beckon, and call into existence criminal enterprises no matter what has happened recently to the people who used to be in that business. The great error is in imagining that the assets and capabilities owned by particular criminal enterprises that allowed them to be dominant for a while were unique to the particular people and the particular group, because that would mean that enforcement could rest on its laurels once it had immobilized the groups that were well known. The problem of organized crime can be better or worse, but it will never be entirely absent. And if it were absent for a moment, the moment wouldn't last. We should measure progress by the gradual weakening of the criminal firms we find around us.

## FOOTNOTES

1. See Michael D. Maltz, "Toward Defining Organized Crime" in Herbert E. Alexander and Gerald E. Caiden, ed. The Politics and Economics of Organized Crime. (Lexington, Mass.: D.C. Heath and Co., 1985) pp. 27-28.
2. Robert G. Blakey, "Remarks" Delivered at Second National Conference on Organized Crime at the University of Southern California, Nov. 11, 1983.
3. Mark Kleiman, Allocating Federal Drug Enforcement Resources: The Case of Marijuana Unpublished Ph.D. Dissertation, Harvard University, 1985. Ch. 7, pp. 4-10.
4. Robert G. Blakey and Brian Gettings, "Racketeer Influenced and Corrupt Organizations (RICO): Basic Concepts - Criminal and Civil Remedies," 53 Temple 1009 (1980).
5. One of the common relationships between organized crime and legitimate business firms is that of organized crime "laundering" its money through legitimate businesses. Since this involved putting additional money into the legitimate firm, its financial performance will necessarily improve.
6. This mirrors a shift in our thinking about street crimes from a pre-occupation with offenses to an analysis of the offenders. See Mark H. Moore, et al., Dangerous Offenders: Elusive Target of Justice (Cambridge, Mass.: Harvard University Press, 1984).
7. Kenneth R. Andrews, The Concept of Corporate Strategy (Homewood, Illinois Dav Jones-Irwin, 1971).
8. For an example of the "institutional tradition" see, Donald R. Cressey, Theft of the Nation: The Structure and Operations of Organized Crime in America (New York: Harper and Row, 1969). For examples of the "economic tradition," see Thomas C. Schelling, "Economic Analysis and Organized Crime" in President's Commission on Law Enforcement and the Administration of Justice, Task Force Report: Organized Crime (Washington, D.C.: Government Printing Office, 1967) or Peter Reuter, "The Organization of Illegal Markets: A Theoretical Account" Unpublished Mimeo, The Rand Corporation, 1982.
9. Annelise Graebner Anderson, The Business of Organized Crime: A Cosa Nostra Family (Stanford, California: Hoover Institution Press, 1979). Also, Peter Reuter and Jonathan Rubinstein, Illegal Gambling in New York: A Case Study in the Operation, Structure, and Regulation of an Illegal Market (Washington, D.C.: National Institute of Justice, 1982).
10. Anderson, The Business of Crime.

11. For a case indicating the complexity of managing a "strategic planning system," see Richard Vancil "Texas Instruments, Inc. Management Systems: 1972" Harvard Business School Case # 9-172-054 (Cambridge, Mass.: Harvard Business School, 1972).
12. See Thomas J. Peters and Robert H. Waterman, In Search of Excellence (New York: Harper and Row, 1982), Ch. 12.
13. Ibid., Ch. 12.
14. For a further development of these points about organizational structure, see Mark H. Moore, "A Review of The Business of Organized Crime" in
15. Robert N. Anthony and Regina Herzlinger, Management Control in Non Profit Organizations (Homewood, Illinois: Irwin, 1975 ) Ch. 2.
16. Anderson, The Business of Organized Crime.
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18. Thomas C. Schelling, "Economic Analysis and Organized Crime."
19. Mark Furstenberg, "Violence and Organized Crime" in Crime of Violence, Staff Report to the National Commission on the Causes and Prevention of Violence, (Washington, D.C.: Government Printing Office, 1969).
20. Peter Reuter, Disorganized Crime.
21. Mark H. Moore, Buy and Bust: The Effective Regulation of an Illicit Market in Heroin (Lexington, Mass.: D.C. Heath, 1977) pp. 30-38.
22. This is the result of recent federal and state laws requiring banks to report currency transactions. For a recent state statute, see California Senate Bill No. 1470, Chapter 1039, "An Act Relating to Financial Transactions."
23. This basic idea is captured in the literature on corporate strategy by the concept of "distinctive competence." For an analysis of how tasks shape enforcement organizations, see James Q. Wilson, The Investigators (New York: Basic Books, 1978).
24. Robert A. Leone, Who Profits: Winners, Losers, and Government Regulation (New York: Basic Books, 1986).