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**CRIMINAL FIRMS AND
INTER-ORGANIZATIONAL
RELATIONSHIPS IN
ILLICIT DRUG MARKET.
ANALYSIS AND
CLASSIFICATION**

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Background

Rising interest in the study of inter-firm relationships to interpret industrial and organizational dynamics in the context of legal economy.

Lack of a symmetric engagement in the understanding of the relational dynamics of criminal firms in illegal contexts.

Building-up a theoretical scheme able to interpret inter-organizational relationships between criminal firms is interesting for two reasons:

- 1. From a theoretical point of view it contributes to filling a void in research and analysis on the topic.**
- 2. From an applied point of view it can contribute to the definition of contrast strategies that take into account the evolution of both the strategies of criminal organizations and the structure of the illicit drug supply-chain.**

- 1. Evolution of the drug market**
 - 2. Criminal firms**
 - 3. Emergence and classification of relationships**
 - 4. Application**
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Evolution of the illicit drug market 1/3

Demand and supply

The evolution of supply has been characterised by:

- **Increased production and lower prices**
- **Strong dynamics of both the technology and product diversification**
- **The carrying out of modern marketing strategies**

The evolution of demand has been characterised by:

- **A strong increase in the demand for cocaine and ATM**
 - **A reduction in the demand for heroin**
 - **A relatively stable use of cannabis**
 - **An increase in consumption and a widening of the geographical extension of the market**
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Evolution of the illicit drug market 2/3

Contrast policies and context

Contrast policies have caused instability along the trade-routes and a strong need to refine productive processes and to modify the spatial distribution of productive phases.

Internationalization and globalization of markets have permitted a higher mobility of illegal products and a higher mimetism of illicit transactions. However, in order to benefit from those advantages, criminal organizations have to internalise competencies characterised by progressively higher complexity and heterogeneity.

Evolution of the illicit drug market 3/3

De-integration and relationships

The more relevant elements that contribute to define the evolution of the illicit drug market are:

- 1. A wider geographical extension of the market and a higher instability of the trade-routes**
- 2. A higher complexity and interdependency of the functions and a higher heterogeneity of the competences needed to operate in the market**

Both these elements lead to a higher difficulty in the internalisation of the functional and territorial discontinuities and, therefore, to a tendency towards de-integration and to a higher impact of inter-organizational relationships between criminal firms

Criminal firms 1/3

Functional strategy

The functional strategy relates to the functional boundary of criminal organizations.

The functional strategy is defined so as to permit the keeping of organizational consistency, that is the efficient management of the interaction between the characteristics of the internalised resources, the typology of organization and the processes by which the resources themselves are developed.

Particularly, the functional strategies oriented towards integration and specialisation involve typology of organization, respectively, decentralised or centralised, and lead to different capabilities in terms of the management of interdependencies and the flexibility and adaptivity with respect to the operative context.

Criminal firms 2/3

Territorial strategy

The territorial strategy relates to the approach of criminal organizations with respect to the spatial dimension of the supply chain.

The choice on the type of strategy, control vs. presence, is made based on an evaluation of the trade-off between the possibility to exploit some territorial scale economy produced by the territorial concentration of activities and by the control on the social and economic life of the territory and the possibility to exploit the higher flexibility of positioning produced by a strategy oriented towards the presence.

Criminal firms 3/3

Classification of criminal firms

		functional dimension	
		integration	specialisation
territorial dimension	control	1	2
	presence	3	4

- 1. Integration and control (Colombian narcos)**
- 2. Specialisation and control (retailer and dealer)**
- 3. Integration and presence (intermediaries and traffickers)**
- 4. Specialisation and presence (professionals)**

Emergence and classification of relationships 1/4

Definition of scenarios

Based on the interaction between the characteristics of the functional and territorial strategies of criminal organizations, and the characteristics of the functions and territories involved in the illicit transactions, is possible to determine when a territorial and/or a functional discontinuity translate into an organizational discontinuity.

		functional dimension	
		organizational discontinuity	organizational continuity
territorial dimension	organizational discontinuity	C	B
	organizational continuity	A	integrated criminal organization

Emergence and classification of relationships 2/4

Scenario A

		functional strategy of organization 1	
		specialised	integrated
functional strategy of organization 2	specialised	bridge relationships	conglomerate relationship
	integrated	conglomerate relationship	alliance relationship

Bridge

Minor possibility to build-up a shared context and, therefore, low flow of information. Low profile interdependencies .

Conglomerate

The integrated firm tends to implement the specialised functions and directs the flow of information, which is partly shared. Medium profile interdependencies.

Alliance

Higher sharing of information. High profile interdependencies.

Emergence and classification of relationships 3/4

Scenario B

		territorial strategy of organization 1	
		control	presence
territorial strategy of organization 2	control	control extensive relationship	territorial tie relationship
	presence	territorial tie relationship	presence extensive relationship

Control extensive

Extension of the territory of mutual interest. Possibility to exploit the territorial scale economies and low level of flexibility of the positioning.

Territorial tie

Link between controlled territory and territory that need a presence strategy. Medium levels of exploitation of territorial scale economies and in terms of flexibility of the positioning.

Presence extensive

Exploitation of territorial interdependencies without loss of flexibility of the positioning.

Emergence and classification of relationships 4/4

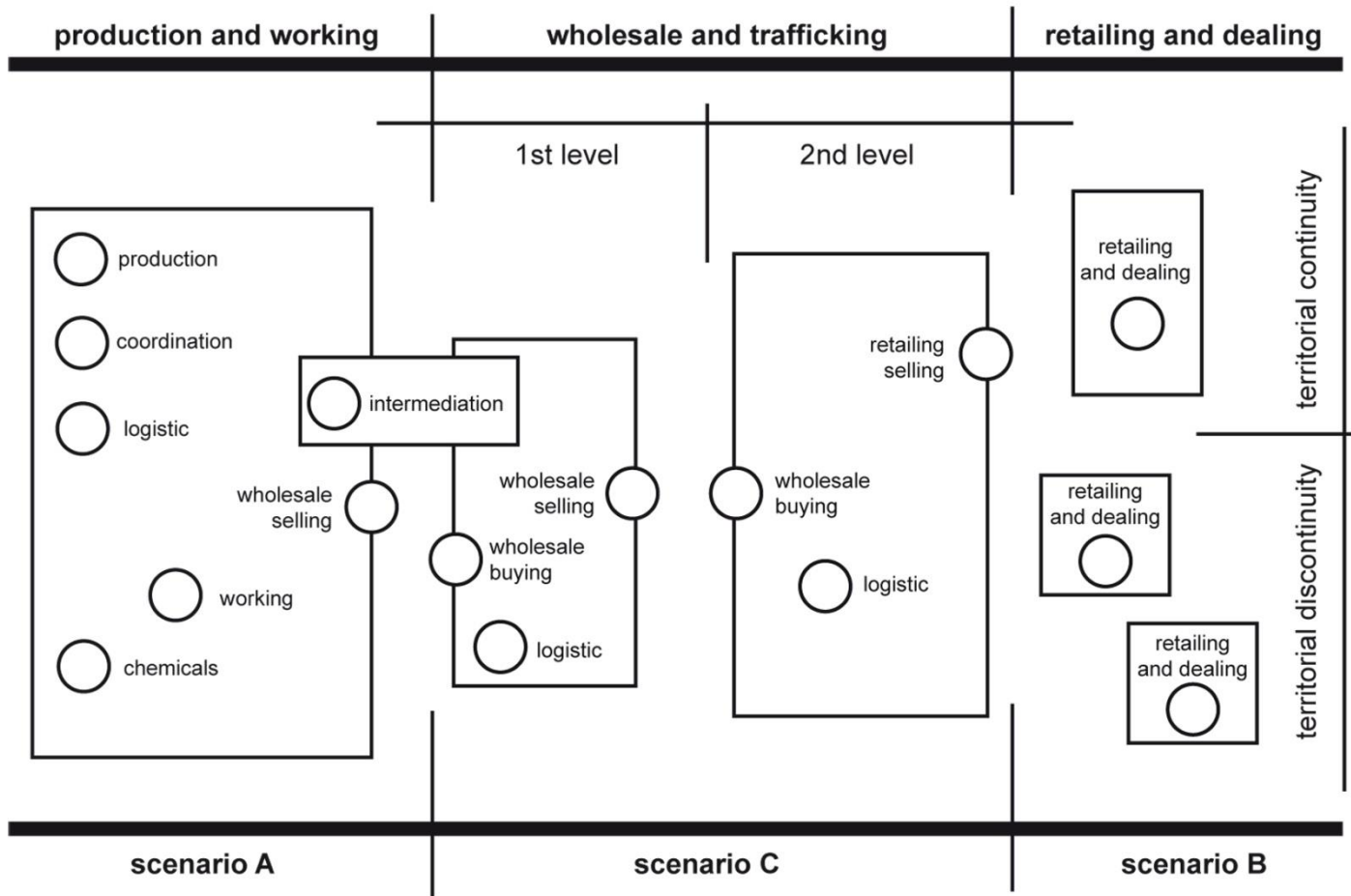
Scenario C

territorial dimension

		C-C	P-C	P-P
		functional dimension	I-I	control extensive alliance
I-S	control extensive conglomerate		territorial tie conglomerate	presence extensive conglomerate
S-S	control extensive bridge		territorial tie bridge	presence extensive bridge

Application 1/2

Structure of the supply chain



Classification of relationships

