

Corruption and criminal firms in the public sector

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1. The purpose of the paper

In recent years an increasing amount of attention has been devoted to the problem of organized and ramified crime and its penetration of economic activities (Ayling, 2009; Donadio, 1994; Roberti, 1994, 2008). Legitimate businesses are seen by criminal organizations as an elective domain in which investing illegal profits. This is made possible by a substantial detachment between the capital raised and the criminal actors that have achieved illegally such accumulation.

In public works the corruptive practices are strongly related with the technical and political mediation ensured by a number of intermediaries that may play a role in the awarding of the tendering. Such actors may be seen as the linking element between public administration and criminal firms and thrive on the inefficiencies of the technical departments within the municipalities (Canonico, Consiglio, De Nito and Mangia, 2010; Morselli, Giguère, and Petit, 2007).

In this paper we show that in order to understand such phenomena there is a need of a wide perspective that scrutinises the relationships between criminal firms, legitimate firms, stakeholders, the public sector, financial institutions and consultants. We examine the border between the legal and illegal economy in the public sector, analyzing how criminal actors behave in this context. We use resource dependency theory to understand criminal organizations' strategies for managing their relationship with the legal economy. This enables us to paint a richer, more detailed picture of the links between business and crime. We illustrate and support our argument through three case studies located in Italy. In fact, a variety of sources have reported that in Italy nowadays there is a set of firms that use resources that stem from criminal activities, but operate in legitimate industries (Arlacchi, 2001, 2007; Caneppele, Calderoni and Martocchia, 2009).

2. The theoretical background

It is more and more acknowledged that legitimate economic activities represent an appealing task environment for organized crime (Verfaillie and Vander Beken, 2008). In fact, as a few authors have pointed out (Passas, 2002; van Duyne, 2005), the border between crime and legitimate economy is not neatly traced at all. An alternative literature that looks at the overlapping interests and interchange of actors between legitimate commerce and criminal conduct therefore is slowly finding its way (Beare, 2007), providing more realistic account of ongoing development of economic activities in a number of developed countries. As Vander Beken and Van Daele (2008: 740) claim, "legal and illegal activities do not operate on

parallel and distinct levels, but rather they are connected and interdependent. Following this reasoning, the next step is to acknowledge that there is a point where the two businesses, legal and illegal necessarily meet. This point is profit, which is the main driver of the activities of both". While sequential interdependences between criminal and conventional economic activities for money laundering purposes are well known, less space has been devoted to the strategies undertaken by firms (acting in legitimate industries) that are direct or indirect emanation of criminal organizations. We feel that extant managerial literature is still lacking thorough accounts of such phenomenon, and thus believe that public management research could fruitfully be concerned with this pervasive trend, putting under scrutiny the interorganizational relationships entertained by public administrations with external goods and service providers.

Therefore in this paper we focus our attention on criminal firms in order to penetrate into the business of public procurement contracts. We see criminal firms as those that provide services and/or goods in legitimate industries, deploying both legal and illegal tools to achieve economic and social benefits (managerial and professional competences, corruption, money laundering, violence, collusion, etc...). Such firms are controlled (whether directly or indirectly) by a criminal entity.

Traditional studies on the infiltration of criminal organizations in public tendering procedures reported extortion on private operators undertaking public works imposing protection fees in order to be able to work safely in a given area. More refined forms of influence and penetration have then be reported in the last few years, mirroring the evolution of entrepreneurial customs and strategies of criminal organizations, which have set up their own firms under apparently legitimate forms of enterprise. As Caneppele, Calderoni and Martocchia (2009: 154) state, "the evolution of infiltration in public procurement has most recently shifted towards more subtle and sophisticated forms of infiltration, which now require complex knowledge on how to participate in public procurement, how to submit a bid, and how to run a company. This entails direct control over one or more companies, which in return provide powerful means to launder dirty money and exert social control over the local economic system. [Criminal organizations have] thus enlarged traditional area of action, concealing criminal activities behind a veil of legitimization".

In this paper we wish to enlarge public management literature on this "dark side" of business: we claim that a theoretical framework based on managerial literature is needed to improve the understanding of the increasing economic and social power of criminal firms. We suggest that resource dependency theory (Pfeffer and Salancik, 1978) may be useful for understanding the

presence of criminal organizations in the legitimate economy, clarifying in particular the strategies activated by criminal firms in order to penetrate into the business of public procurement contracts.

We depart by recalling seminal work on RDT done by Davis and Cobb (2010); according to them, the most widely used aspect of this theory, is related to the analysis of the sources and consequences of power in inter-organizational relations, focusing, in particular, on where power and dependence come from.

When analyzing criminal firms, we depart from the traditional RDT strategies codified in Pfeffer & Salancik (1978) in order to focus on two main tactics: political action and inter-organizational relationships. The reason for this choice is that mergers are not relevant in the criminal domain, while executive succession and board of directors are less relevant because criminal firms are steered by hidden criminal organizations rather than internal executives.

In particular, we want to look at the provision of public goods and services, exploring (a) how criminal firms proactively manage the external context (Pfeffer and Salancik, 1978), (b) which tools they use to control external resources and (c) which categories of organizational actors criminal firms form relationships with, and which ones they control. We try to make more explicit some ideas that are implied in the RDT literature, combining the conceptual and theoretical nature of RDT with an empirical scrutiny.

3. Methodology

As public management research on infiltrations of criminal organizations is still at early stage, two shortcomings are to be considered as inevitable: reliance on practice based evidence and eclecticism in reference contributions disciplines (i.e., borrowing ideas and reflections from a variety of cognate fields of studies). Following Corley and Gioia (2011:18), we feel that papers in this area are deemed to “provide a theoretical contribution...[by producing] thinking that is original in its insight and useful in its application”. In our view, such demands may be met in this domain of study by relying on an inductive approach able to single out the dynamic and peculiar features of the phenomenon under scrutiny. In this paper we have used a qualitative research methodology based on case studies.

Qualitative research in public management is often interested by a peculiar tension between practical relevance and theoretical foundations, and a few scholars have questioned the significance of empirical findings (Brower, Abolafia and Carr, 2000). We believe that the core qualities of qualitative accounts need to be understood in the context of a very peculiar

empirical setting like the one we are facing in this paper (Golden-Biddle and Locke, 1993).

In fact, our empirical scrutiny was affected by three major constraints:

- 1) there is a clear difficulty in gathering data and information directly from the people involved (they are rarely in a position to disclose information for research purposes);
- 2) in many cases public prosecutors may be sworn to secrecy and cannot disclose all the information they have available;
- 3) the Italian judiciary system is very slow, due to the length and complexity of trials.

The basic consequence of such constraints is that we were obliged to collect our data from two main sources: analysis of official documents (judiciary acts, police forces' reports, the Italian Antimafia Commission's reports) and interviews with a panel of distinguished experts.

We narrowed down our focus to five major cases:

- the enquiry on the Port of Gioia Tauro;
- the enquiry on the Milano–Venezia high-speed train line;
- the enquiry on the Casalesi/Eco4 affair (concerning waste collection and removal in the Caserta province);
- different enquiries involving an important entrepreneur in Genova;
- the enquiry two towers in Salerno.

4. The main findings and contributions.

Synthesizing our main results, we can draw our main conclusions. Firstly, empirical scrutiny revealed that criminal firms can proactively manage the external environment by exploiting different typologies of resources and setting up different types of relationships with different typologies of actors. Focusing on the tools adopted, all our cases pointed to the crucial role of political action. However, the specific relevance of the different alternatives varied from case to case. Criminal firms set up a highly specialized set of inter-organizational relationships involving different typologies of organizational actors (legal and illegal firms, institutions, etc.) and adopting both formal and informal ties.

We also looked at the behaviour of criminal actors in the context of the dissolving border between the legal and illegal economies. To examine the strategies used by criminal firms to manage their relationship with the legal economy, we carried out an analysis using resource dependence theory. We then developed a rich picture of the links between the legal and illegal economy – one that calls for a redefinition of the whole concept of the “dark side” of business.

Our proposed innovation is to integrate the traditional RDT strategies codified in Pfeffer and

Salancik (1978) with criminal tactics. Based on the analysis of Aharoni et al. (1981), we can note that the option of using illegal techniques gives criminal firms extraordinary resources for handling environmental dependencies. The presence of heterogeneous interests of different agencies and political decision-makers can be managed much more simply, influencing the political and elective process as a result. Our empirical evidence shows that two different models may be depicted.

In the first model, which we call the “predatory” model, criminal organizations control the later phases of procurement processes. They tend to have fewer actors under their control and also use more traditional criminal levers (intimidation, environmental pressure). Their presence is more peripheral and they are able to exert less effective control of the economic activities involved. Hence their sphere of influence is restricted to marginal, low-value-added activities (for instance, subcontracting in earthmoving works) that are often used to cover the transfer of black-market funds then used to pay bribes.

The predatory model is characterized by a dual relationship between the firm that receives the right to carry out public works through competitive tendering procedures or the possibility of managing a public good or service, and the criminal clans. In the second model, which we term the “entrepreneurial” model, criminal organizations enter directly into the business system and control more actors and resources directly. Traditional criminal levers (such as violence or physical intimidation) play a more marginal role. This may explain why a more macroscopic approach is needed, meaning that RDT has an important role to play.

Pfeffer and Salancik’s (1978: 189–190) statement regarding the ability of (legitimate) firms and organizations to create an environment that favors their own interests seems particularly apposite to criminal firms. At the same time, criminal firms have many possibilities to influence mainstream political debate, forcing politicians to adopt measures and provisions that suit their aims. This perspective helps to show why public procurement processes are particularly relevant: influencing them gives criminal firms the chance for increased territorial control, as well as a show of strength.

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