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INTRODUCTION

The Mafias, which are considered to be the most sophisticated form of criminal organization, do not confine their activities to illicit trafficking. They also develop businesses in the lawful economic sphere. The economic impact of such businesses can be striking: the assets owned by Italian Mafia families in 1999 and 2000 were estimated at €5.2bn in the retail and tourism industries, €4.2bn in services, €7.8bn in import and export trade activities, €3.12bn in the construction industry, €13.1bn in finance, €2.6bn in the insurance business, and €10.5bn in real-estate activities (Confcommercio, 1999, 2000). In 2011, the global revenues generated by Italian Mafia businesses reached €140bn, which accounts for 5% of Italy's GDP. In Japan, meanwhile, light was shed on the penetration of the Yakuza clans in the lawful economy during the burst of the real-estate bubble at the beginning of the 1990s. According to the Japanese authorities, 30% of the US$600bn of unrecovered loans made by local banks was granted to legally registered firms controlled by Yakuza clans.
Mafia organizations have been described as the "aristocracy of organized crime" (Raufer, 2005: 19). They are closed and ritualistic organizations with vast power over the territory they control. Traditionally anchored in the history of a country or a region, nowadays they operate their diverse trafficking operations on the international scene. The best-known examples are the Camorra, the 'Ndranghetta, the Cosa Nostra, and the Sacra Corona Unita in Italy, the US

Cosa Nostra, the Turkish Maffya, the Albanian Mafia, the Chinese Triads, and the Japanese Yakuzas. These Mafia groups usually involve several families, each of which controls its own territory and manages its own business.

To date, the strategic management literature has paid little attention to the apparently "lawful" activities run by such criminal groups. Existing research mainly focuses on the illegal facets of Mafia business, like illicit trafficking (e.g., Mudambi and Paul II, 2003). To the best of our knowledge, with the exceptions of Gambetta and Reuter (1995) and Champeyrache (2004), few scholars have investigated their legal facets. Our essay is an attempt to fill this gap. As Mafia clans own and manage firms competing with lawful businesses, one may wonder whether the specific governance mechanisms used by Mafias alter the competitive game and potentially give them some sort of economic advantage. Hence our research questions: How specific are the governance mechanisms developed in Mafia-owned firms? and To what extent do these mechanisms provide them with economic advantages (or disadvantages) over lawful firms?

As data about Mafia activities are difficult to obtain from primary sources for obvious reasons, this essay relies on published testimonies of reformed Mafiosi ("pentiti"), reports by law-enforcement institutions and official criminal justice documents [1]. Our reflections are induced from these data.

Mafia families and legally registered Mafia firms

Mafia-owned firms, dubbed "legally registered Mafia firms" (LMFs) by criminologists, can be defined as firms that are legally registered and apparently engage in lawful activities but are owned by a Mafia family (Champeyrache, 2004) [2]. They differ from lawful firms in three main ways (Gambetta, 1993; Fanto, 1999): the owners (Mafiosi) are members of a criminal organization; funding partially comes from illegal activities; and criminal methods involving violence or corruption might be used while doing business. Legal and illegal activities are therefore closely intertwined within LMFs as the legal activities mostly serve to launder profits stemming from illegal ones (Fanto, 1999).

LMFs emerge in two main ways: either they are created from scratch or they result from takeovers of legally registered firms through the use of via which use intimidation or loan sharking. In both cases, the owners and managers are Mafia affiliates or surrogates. One illustration of these two forms of emergence is the practices adopted by a Camorra clan from the Naples area, namely the Romano-Agizza family (Champeyrache, 2004). One of the firms it controlled was called So.Ge.Me SRL and was created in 1979 by the clan itself with 20m liras' worth of capital. This firm specialized in equipment for concrete production. At almost the same time, Luigi Romano took control of another firm also operating in the construction industry. This firm, named Messere SPA and located in Naples, was initially owned and managed by Pietro Messere (Naples Court of Justice, 1984). Due to intimidation, fires and racketeering, Pietro Messere had to suspend his firm's activities. In 1983, he decided to accept the financial support offered by Romano in exchange for 50% of its shares. Luigi Romano became the firm's CEO. While still working for Messere SPA, Pietro Messere's responsibilities were limited to public relations development.

A Mafia family traditionally manages a federation of dozens or hundreds of relatively small LMFs. The pentito Gaetano Guida from the Neapolitan Camorra explained in 1998 how his family established such a federation of LMFs to sell counterfeit products worldwide: "In Dortmund, there's a warehouse managed

1. In order to circumvent issues caused by organizational differences between criminal groups (see Arlacchi (1992), Gambetta (1993) and Kaplan and Dubro (2003) for detailed presentations of the organization of various Mafia groups), this essay focuses on Italian Mafia families. We include the New York Cosa Nostra, which is an expansion of the Sicilian Mafia in the United States. Its organization is quite similar to that developed by its "mother" family (de St Victor, 2008).

2. A Mafia is generally composed of several families. For instance, the Genovese and Bonnano families belong to the New York Cosa Nostra. These families manage their own activities, sometimes in a coordinated way (Rogers, 2011). In this essay, we study governance issues associated with family-run business activity.

by Gaetano Perna, brother-in-law of Pietro Licciardi […]. The Licciardi and Riso company in Frankfurt is managed by Vincenzo Riso for the clan. Salvatore Bosti, called Sasa'O Pescivendolo, brother of Patrizio, is the co-owner with the son of Sintex Pelli […]. In Nice, the retailing business is managed by the sons of Vincenzo Attardi, men from Contini and Giulano. The same Attardi owns a shop in Switzerland. In Yugoslavia, Patrizio Bosti's brother managed a textile shop […]. In the Netherlands, in Amsterdam and in another town, a drug dealer manages a business of fake clothes and Rolex watches" (Forgione, 2009: 123-124).

LMF federations are typically headed by family councils, who simultaneously supervise legal and illegal activities (Rogers, 2011). For instance, in capo famiglia Lucky Luciano's day, the decisions within the New York Cosa Nostra were made by a council led by Lucky Luciano himself and composed of the head of finance, the head of lobbying (involved in dealing with the police, the legal system and the political sphere), the head of economic affairs in New Jersey, the head of games and casino activities in New York, and the head of the killers' syndicate, also known as "Murder Inc." (de St Victor, 2008).

Another important trait of these LMF federations is their reliance on codes of generally unwritten rules, dictated and enforced by the Mafia families (Gambetta, 1993). Leeson and Skarbek (2010) called these codes "constitutions" and defined them as "rules that promote productive intra-organizational interactions and prevent behavior that is detrimental to their organization" (Leeson and Skarbek, 2010: 281). According to these authors, the existence of a constitution facilitates cooperation between members and, by extension, contributes to profit generation.

Principal-agent relationships within legally registered Mafia firms

Governance mechanisms used in LMFs may differ significantly from the mechanisms used in lawful firms. In order to understand the extent to which these mechanisms diverge, we refer to the agency framework. Within an LMF, since both the owner (the principal) and the manager (the agent) are affiliates or surrogates of the same Mafia families, one might assume that the potential misalignment of interests and goals between them is reduced. Previous research has shown that the behaviors of these affiliates or surrogates (Chairmen or CEOs) are actually supervised by the Mafia council itself (Gambetta, 1993; Rogers, 2011; Stille, 1995). Principal-agent relationships therefore take place at the federation level, and adverse selection and moral hazard are less likely to be an issue in LMFs than in lawful firms.

Adverse selection arises when the principal does not know the real abilities and intentions of the candidates in the pool of prospective agents regarding the provision of the service and the satisfaction of the principal's demand. Within an LMF, since the council selects agents from a pool of Mafia affiliates and surrogates, adverse selection should be less likely. Moral hazards arise when the agents take advantage of the fact that they generally have more information than the principal due to their tasks and responsibilities. They may hide information, not make the agreed effort, or act in a way that favors their own interest at the expense of the principal's. Again, given the apparently strong alignment of interests among Mafia family members, the risk of moral hazards should in theory be weaker in LMFs than in lawful firms.

However, we should not underestimate the agent's temptation to adopt opportunistic behaviors. These behaviors are twofold. The first is embezzlement, meaning that the agent may not diligently report the gains obtained to the principal (Garoupa, 2007). The second behavior is betrayal, which can enable the agent to move up the clan's hierarchy (Levitt and Venkatesh, 2000), establish a rival firm, or simply exit the clan and its businesses (Dorn, et al., 1998). Police investigations have identified numerous cases of Mafiosi being killed because they were considered to be free-riders or because they were threatening the current family hierarchy. Such investigations show that the decision to kill opportunistic agents is usually taken by the council.

The analysis of possible adverse selection and moral hazards encountered in LMFs confirms that governance issues need to be explored at LMF-federation level. The family council is in charge of mitigating the risk of betrayal and embezzlement from affiliates and surrogates, who are appointed as Chairmen and CEOs.

Governance mechanisms within legally registered Mafia firms

From the literature and the testimonies by pentiti, we identified four mechanisms used by Mafia families to circumvent agency risks inside their LMF federations. The first is violence and intimidation. Given their mostly illegal activities, Mafia families cannot rely upon contract enforcement by State laws. They must provide their own enforcement framework, which is typically based on violence and coercion (Mandel, 2011; Paul and Wilhite, 1994). As Rogers (2011: 4) writes, the head of such a criminal organization has the "power to settle issues by fiat, by authority, or by disciplinary action superior to that available in the conventional market". This specific enforcement framework enables Mafia families to prevent the emergence of goal conflicts and betrayal (Mudambi and Paul II, 2003). Murder Inc., the killers' syndicate in the New York Cosa Nostra at the time of Luciano, illustrates how this parallel enforcement framework works. Murder Inc. was directly managed by the council and its primary purpose was to intimidate and kill those who did not comply with the pre-defined "constitution". During the Second World War, Lucky Luciano appointed Benny Bugsy Siegel, who was a former killer at Murder Inc., to develop businesses on the West Coast of the United States. Bugsy Siegel suggested building the Flamingo. Thanks to financial support from the Mafia, this gigantic casino-hotel was built in the area which is now Las Vegas. Finalizing its construction required a budget of six million dollars, an amount much higher than initially planned. Bugsy was accused of embezzlement and then killed (de St Victor, 2008). Such levels of violence are only used in extreme cases, as intimidation and threats of violence are sufficient to induce behavioral alignment in most cases.

The second mechanism is corruption (Bowles and Garoupa, 1997; Mandel, 2011). Corrupt policemen and officials turn a blind eye to illegal practices and protect affiliates running LMFs. In New York's Cosa Nostra, Franck Costello was a council member and played the role of "head of lobbying". He was in charge of paying police officers, legal professionals and politicians in order to make them tolerate Cosa Nostra business. His activities became so significant that Franck Costello was later called "the Prime Minister" (de St Victor, 2008). By corrupting police officers and government officials, Mafiosi can use violence and enforce their code with almost total impunity within the clan as a whole, but also within LMFs. Through corruption, Mafia families can more easily impose sanctions in the case of a misalignment of interests, but they can also protect their agents against police and legal action. For these reasons, corruption acts as a mechanism that encourages behavioral compliance with the Mafia family constitution.

Third comes affiliate turnover. Mafia affiliates switch from one LMF to another on a regular basis. They also switch from owner positions to manager positions. This turnover is a mechanism used to generate opacity regarding Mafia activities. It makes it harder for police officers and prosecutors to keep track of affiliates' activities and, more broadly, to fight Mafia organizations' illegal business. One illustration of how frequently position changes can occur within an LMF is So.Ge.Me SRL as mentioned above. This construction firm, renamed Bitum Beton SPA three years later, was created in 1979 and owned by a Camorra family (Champeyrache, 2004). Luigi Romano was its first Chairman and CEO and Antonio Caiazzo and Vincenzo Agizza were associates. Three years later, Antonio Caiazzo became the Chairman. Later in the same year, Vincenzo Agizza was appointed Chairman and CEO. In April 1983, he was replaced by Luigi Romano, and in May 1983 Antonio Caiazzo replaced Vicenzo Agizza as Chairman. Changes also occurred within the LMF federation as a whole, since Antonio Caiazzo was then appointed Chairman of SaFin and finally a board member at Motrer, two firms which were run by the family. As shown by police investigations, Antonio Caiazzo acted as a front man for the Camorra family.

By fostering high affiliate turnover, Mafias may indirectly mitigate moral hazards within LMFs. The risks of embezzlement and betrayal are indeed reduced since affiliates' familiarity with the business is limited. First, the principal knows from former agents the gains that are likely to be generated from LMF activities. He is well equipped to detect attempts at embezzlement by newly appointed agents. Second, betrayal requires a deep knowledge of the LMF's business and internal organization. The absence of such knowledge reduces the temptation to create a rival firm but also limits the extent and value of information that agents could share with police officers.

The fourth mechanism is firm turnover. The rate of creation and disappearance of LMFs is particularly high in comparison with the population of lawful firms. As an illustration of firm turnover within the LMF federation, we refer to the 'Ndrangheta in Calabria. Natale Lamonte, who was one of its members, created a construction firm in the 1970s in order to win a contract related to the establishment of a large chemical group in the region (Champeyrache, 2004). The firm ceased its activities in 1979 and a new firm with a new name and new registered owners was then created. A few months later, this wealthy new firm filed for bankruptcy and was bought cheaply by a friend of Natale Lamonte's. Firm turnover can be seen as a governance mechanism that protects the principal from police investigation. Similarly to affiliate turnover, it also reduces the risk of embezzlement and betrayal by limiting agents' familiarity with the firm and its business.

These four mechanisms implemented by Mafia families act on agents' behaviors in different ways: the first, violence, directly aims at aligning the affiliates' behavior; the three other mechanisms, corruption, affiliate turnover and firm turnover, are primarily used to protect the family and the other clan members from police investigation and legal action. By mitigating the risk of prosecution, the principal provides agents with additional incentives to comply with its rules.

An economic analysis of governance in legally registered Mafia firms

Since Mafia organizations compete with lawful firms via their LMFs, one might wonder about the extent to which differences in their governance mechanisms have an impact on competition.

On the one hand, the LMF federation is likely to suffer from three main economic weaknesses. Firstly, its governance can imply prohibitive costs. In particular, the use of violence and corruption requires bribes, guns, ammunition, the training of killers and murder preparation. Secondly, the need to change firms' names and management teams regularly magnifies administrative costs. Moreover, such turnover can be detrimental to firms' reputations within the market and it does not enable them to build close and strong ties with suppliers and potential customers easily. This presumably makes LMFs less competitive than lawful firms. Thirdly, Mafia families recruit agents from a relatively small pool of affiliates and surrogates. These potential agents do not necessarily have the profile required to run LMF activities. For example, Vincenzo Agizza, who became the CEO of Bitum Beton SPA, formerly worked in an industrial cleaning firm. The pentito Francesco Paolo Anzelmo, initially an uneducated yet accomplished killer of Cosa Nostra, became the Chairman of a number of construction firms (Saubaber and Haget, 2011). Compared to LMFs, managerial selection in lawful firms is generally made from a much wider pool of candidates and the selection process is largely driven by the skills and abilities of these candidates to run the business. In an LMF, allegiance to the Mafia family is considered as the essential criterion for appointing future agents. In addition, the sustained rate of affiliate turnover leads to a lack of managerial competencies at the head of each firm in the federation.

When considering the traditional rules of competition in the economic sphere as a frame of reference, these disadvantages (i.e., lack of competencies, administrative costs and limited reputation within the market) are liable to significantly jeopardize LMF competitiveness compared to lawful firms. These disadvantages are, however, balanced out – in the short term at least – by the advantages which stem from the very same governance mechanisms. Besides protecting the agents, the use of violence and corruption enables Mafias to control local markets and to take advantage of local business opportunities to the detriment of lawful firms. For instance, Franck Costello, working for the New York Cosa Nostra, learned from a corrupt government official that three firms were bidding to become the cement provider for a huge government project aimed at building dikes in New Jersey. One of these firms was run by Cosa Nostra and another by a Polish family. According to the corrupt official, the Polish firm was able to offer a price significantly lower than that quoted by the other two firms. Although the executives of the Polish firm were contacted and "invited" to back out of the auction, they maintained their offer. A few days later, the son of one of these executives was kidnapped. The kidnappers threatened to kill him if the Polish firm did not withdraw from the auction. This threat resulted in the Polish firm's increasing its price, and the LMF therefore won the bid (de Saint Victor, 2008). Both mechanisms can be adopted, independently or jointly, to force clients to work with an LMF, to force the adjudication of tender offers, and to force competitors to exit the market (Mandel, 2011). The use of violence and corruption to control local markets was

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also successful in the Naples region in the 1980s: through legal investigation, abnormal levels of growth were identified for some LMFs operating in the construction industry. Between 1980 and 1984, Beton Torre's turnover rose from 4.5bn to 10bn Lira, Calcestruzzi Italia's rose from 2.3bn to 6.2bn Lira, and Cal.Co.Bit's rose from 8bn to 21bn Lira. The track record was held by Bitum Beton SPA, whose turnover increased from 270m to 23bn Lira during this five-year period (Champeyrache, 2004). Consequently, the specific mechanisms characterizing the governance of LMF federations simultaneously generate economic disadvantages and advantages. The intrusion of an LMF federation in a particular industry is therefore likely to alter the competitive game.

CONCLUSION

In addition to illegal trafficking, Mafia organizations develop a legal facet via their federations of LMFs. While these apparently legal activities have a significant economic impact, they have received fairly little attention from scholars to date; research has focused its attention, rather, on competition involving lawful firms. Our essay shows that LMFs can hardly be explored with traditional theories on governance mechanisms, firms' reputations, CEO leadership, and, more broadly, sources of competitive advantage, and legal and illegal spheres should not be examined as two isolated worlds. Scholars must instead acknowledge that legal markets are arenas where various categories of competitors fight for hegemony, and notably where lawful firms might face difficulties in winning if they exclusively use traditional and legal strategies. Research on organizations such as LMFs should no longer be considered an exotic niche.

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