

# Transnational Criminal Organizations:

## *It's Not Personal... It's Business!*

**by Joshua A. Taylor**

### **Setting the Stage**

In relation to issues along the southwest border, transnational criminal organizations (TCOs) are a volatile subject among politicians, academics, and the peoples of both Mexico and the U.S. The trouble with addressing the issue of TCOs begins with a failure to classify them as an organization and understand them as a threat to national security interests. First, it is necessary to understand that the strategic goal of TCOs is profit. Maximizing profit share within the constraints of the environment drives their behavior. Second, TCOs lack both the desire and the components of a broad-based political or ideological movement designed to seize control of a government in some revolutionary manner. The methods and scale of violence may be similar to certain terrorist and insurgent groups, but their strategic goals are not. Moreover, describing a TCO as “terrorist” or “insurgent” tends to create a frame that becomes overly focused on security. TCOs create security problems, but those issues are a byproduct of their business. If the intent is to dismantle them, the focus must be on targeting areas of competitive advantage that allow them to survive as a business. This view is crucial to detaching oneself from the emotional aspects that surround the violence and behavior of TCOs. After all, “It’s not personal. It’s business.”

### **The Business of TCOs and the Role of the State**

Phil Williams, an expert analyst of TCOs, states, “The aim of TCOs is to derive as much profit as possible from their activities—within the limits of acceptable risk.”<sup>1</sup> A TCO is a rational, self-interested, non-state actor within the international system. TCOs are capable of violent behavior; however, their perception of acceptable risk limits their actions. A TCO’s strategic vision, structure,

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and operational reach distinguish it from lower echelons of gangs.

In “*Street Gangs: The New Urban Insurgency*,” Dr. Max Manwaring of the U.S. Strategic Studies Institute describes three generations of gangs.<sup>2</sup> His model of gang evolution closely parallels the evolution of multinational companies (MNCs), which serves to reinforce the premise that TCOs follow a business model and should be thought of as such.<sup>3</sup> First-generation MNCs were purely opportunistic and sought to exploit their host countries with no concern for the impact on the state or its inhabitants. Similarly, first-generation gangs fail to consider the second- and third-order effects of their actions. They are lower-level street gangs with a loose organizational structure, and they conduct their day-to-day operations with little concern for long-term planning. Their goal is purely to exploit opportunities when they exist. Second-generation MNCs looked to grow their investments in the state. In order to do this, they recognized that showing concern for worker’s rights and investing in infrastructure development solidified their positions in the host nation. Manwaring notes that second-generation gangs are more centrally organized in order to establish a small-business type of organization focused on improving financial gains. At this stage, they begin to integrate themselves into societal structures in both the licit and illicit economies as a means to strengthen their positions and grow their infrastructures. Third-generation MNCs are diverse and vertically integrated organizations that strive to maximize market efficiencies by exploiting the globalized market. They are integrated into all facets of international trade—“real movements (commerce of goods and services), financial movements, and virtual movements (information technology and hypermedia).”<sup>4</sup>

As third generation gangs, TCOs are marked

by large territorial expansions and sophisticated infrastructures that maximize commercial gains through licit and illicit economies. These gangs have the capability to inhibit the state in the performance of its duties. Like third-generation MNCs, third-generation gangs have a degree of vertical integration in their supply chain infrastructures that allows different stages of production to occur in various parts of the

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world. To mitigate risk and increase efficiency, TCOs seek to outsource certain parts of their logistical infrastructure. This outsourcing creates complex infrastructures with only loose connections between the controlling authority, the production zone, the transit zone, and the distribution network. Similar to MNCs, this process allows sophisticated, criminal organizations the ability to move in and out of multiple markets quickly with minimal cost. This diversification affords the flexibility to shift efforts to more profitable zones if some link in the supply chain fails.

At this stage of criminal gang evolution, local law enforcement agencies can no longer effectively control TCOs. TCOs act as freeriders within the system; they enjoy the benefits of the state but do not conform to its rules. They seek to diversify their efforts between licit and illicit activities as a means to penetrate and exploit the international market systems and financial institutions. Their willingness to circumvent the rule of law in the conduct of their business creates an unfair competitive advantage that threatens the “stability and efficiency of the global economy.”<sup>5</sup> The activities of TCOs add

chaos to the system and threaten the “social contract” of the state.<sup>6</sup> The unrestrained growth and influence of TCOs in Mexico threaten both regional stability and the U.S. economic partnership with Mexico. As a result, TCOs are legitimate threats to the national security interests of both nations.

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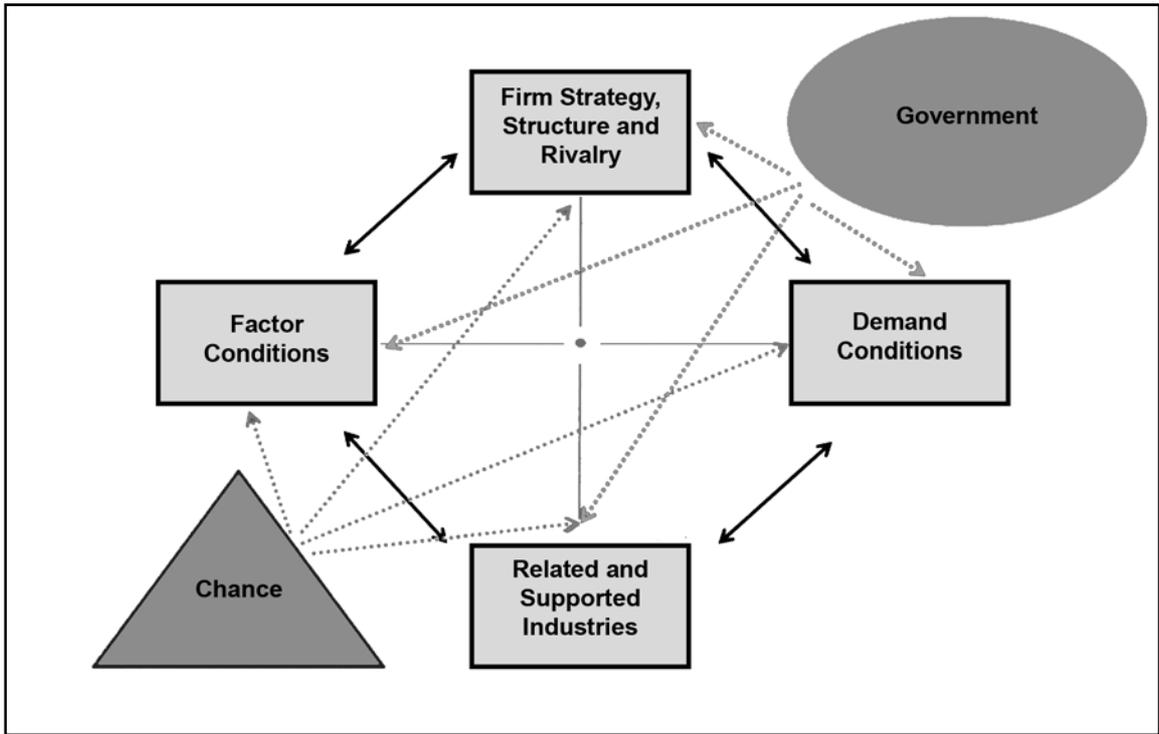
Similar to the role of an MNC operating in a foreign nation, a TCO seeks to exploit seams in the rules and regulations of the host country to lower investment and increase its competitive advantage in the market by increasing the level of interdependence between its services and the needs of the host nation. In some instances, a TCO may assume certain roles of the state by providing certain services to the local populace. However, this is not the desire of the strategic-minded, criminal, business organization. It is only a means to an end. It is a calculated measure to gain leverage over the host nation to maximize profits. The behavior of MNCs or TCOs will often be dictated by the access the host nation allows or denies them within a given market.

TCOs utilize a combination of legitimate and illegitimate means to negotiate larger access to the market. To ensure maximum profit, a TCO will only conform to the rules of the game when it is strategically unsound to do otherwise. TCOs desire a weakened state that affords them the opportunity to maximize profits with relative impunity; however, they do not desire to push the state toward collapse, as it would, simply, be

bad for business. The TCO is capable of causing significant harm to the stability, structure, and overall prosperity of its host nation, but it is dependent on the survival of the host in order to ensure its own survival.<sup>7</sup> In this way, the TCO is a parasite on the state.

The dynamics of this relationship establishes the limits of the TCO and helps define its perception of acceptable risk. However, miscalculations about the cumulative effects of all criminal activity on the state is a danger for both the economic prosperity of the TCO and the stability of the state. Each TCO may vary in its assessment of how far to push the limits of the state. As a result, the state could be closer to failure than the TCO desires. Furthermore, the weakened nature of state institutions creates opportunities for first- and second-generation gangs to exploit. The combination of all three generations of gangs acting upon a weakened state could force a state into failure. This is contrary to the intentions of the TCOs, but it is a real danger of the situation.

It is illogical to assume that a state could implement policies to eliminate the existence of criminal organizations. Criminal organizations will forever seek to exploit high-value, illegal goods as a means to maximize profit, which creates the potential for increased levels of violence and corruption as organizations seek to protect those interests.<sup>8</sup> However, governments should seek to implement measures to reduce the prevalence and influence of potentially destabilizing, third-generation gangs, like TCOs.<sup>9</sup> National strategy should be designed to reduce TCOs’ levels of impunity and force them to operate with higher degrees of anonymity in the conduct of their business. The goal should be to reduce the impact of TCOs to a level of criminal influence that local law enforcement agencies can successfully manage. To achieve this goal, states must design an operational approach to target TCOs’ areas of competitive advantage.



**Porter's Diamond Model of Competitive Advantage<sup>12</sup>**

## The Competitive Advantage of TCOs

Michael Porter, a leading expert in the competitiveness of nations and firms, developed the “Diamond Model” to demonstrate that modern economies can strengthen themselves by growing areas of competitive advantage.<sup>10</sup> He believed that a focus on areas of comparative advantage failed to account for the complexities of the global economy. Therefore, his design emphasizes that economic success is not merely inherited due to location, population, or the presence of natural resources. Rather, it is a function of the interaction of the key determinants within his model coupled with the influence of the government and a firm's willingness to accept risk. Porter's original model was updated to incorporate variables that pertained to the success of multinational corporations.<sup>11</sup> By thinking of TCOs as another industry similar to MNCs, one can apply their structure to the model in order to assess the

critical requirements and vulnerabilities of the TCO business model.

## The Four Determinants of Competitive Advantage within Porter's Model

### *Factor conditions*

The first determinant of competitive advantage represents the inputs required for production. Porter separates them into two categories: basic (traditional factors of production such as land, unskilled/semiskilled labor, etc.) and specialized (factors that were not inherited by the nation [firm] but were created). Specialized factors of production require the investment of both time and money and are represented by a skilled labor pool, which is defined by high levels of education and/or expertise and a sophisticated logistical infrastructure. Within the factor conditions, specialized factors of production are what

truly add to a nation's (firm's) ability to gain a competitive advantage.

Specialized factors of production for TCOs are their degrees of impunity, specialized labor, ability to move financial capital over international borders to support operations, and infrastructure (logistical and financial).

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The model shows how both chance and the government act to increase/decrease areas of competitive advantage. TCOs operating from Mexico exploit seams in authorizations and jurisdictions both domestically and internationally as they seek to increase their degrees of impunity. Their behavior is directly related to the effectiveness of the rule of law. Institutions that are weak in areas of investigation, interdiction, and prosecution create wider seams along which TCOs can operate. At the international level, TCOs utilize established degrees of domestic impunity and international boundaries to attain safe havens, which prevent a stronger nation's institutions from effectively dismantling their operations. The wider the seams in authorizations and jurisdictions, the more risk the TCO is willing to take: TCOs will seek to maximize profit "within the level of acceptable risk." Effective strategies should focus on reducing the seams that make risk more acceptable and targeting the specialized factors of production to reduce their level of competitive advantage.

### ***Demand conditions***

The next determinant of competitive advantage represents the degree of consumer

sophistication and desire to obtain the product. A firm's goals are to maximize profit, satisfy the customer, and ensure the customer's continued desire for the product. Porter asserts that sophisticated buyers of products in high demand will force firms to become more innovative and efficient in order to survive.

TCOs diversify their efforts to service the demands of both the licit and illicit markets in a manner that best enables them to maximize profits. In so doing, they often blur the lines between legitimate and illegitimate operations, which enable them to move illicit goods and capital under the guise of licit operations. This ability undermines the integrity of the system and serves as a significant, destabilizing factor to economic and financial markets. Governments can implement measures to reduce the demand for certain goods, but high-demand, illegal goods will always create a market for criminal organizations. Further, the elimination of certain illegal commodities does little to solve the problems associated with TCOs. TCOs already show the willingness and ability to operate in both the licit and illicit realms. If all drugs were legalized tomorrow, Mexican TCOs would be in the best position to become the primary suppliers to the legal economy based on their existing levels of expertise in the production and distribution of such commodities. In essence, the legalization of drugs may only serve to further empower TCOs; therefore, reducing the demand for drugs remains an effective tool to reduce the influence and power of TCOs. Drugs are the major money maker for TCOs, but it is not their lone activity. The same networks that move drugs illegally from Mexico to the U.S. also move illegal aliens, so high demand for either service provides a market for TCOs.<sup>13</sup> An effective strategy to target TCOs must be comprehensive in nature to address all aspects that contribute to the competitive advantage of TCOs and focus on reducing the demand for all high-demand, illicit services that truly enable

TCO activities.

### ***Related and supported industries***

The third determinant of competitive advantage relates to the degree of interconnectivity among related and supported industries. If a nation (firm) enjoys comparative or even competitive advantages in one industry, it can increase its overall competitive advantage by also operating in a related or supported industry. These multiple operations allow them to take advantage of interconnected logistical lines, resources, and/or market conditions, which leads to lower costs overall and more efficiencies in operations. Porter developed the concept of “clusters” based on this determinant. Clusters are similar or supported industries that collocate in areas where such conditions exist. When certain areas of competitive advantage exist, clusters will begin to form in order to increase the competitiveness and efficiencies of the whole.

The transportation of drugs and illegal aliens represents different commodities; however, the infrastructure to source, transport, and distribute those commodities is similar. TCOs maximize their efficiencies by focusing on related and supportive industries in constructing their strategic visions and sophisticated infrastructures. This focus enables them to diversify and protect themselves in the event of changes to either the rate of demand or their ability to supply certain goods. For example, in the event of successful drug interdiction along one line of operation, supported and related industries enable their ability to alter lines of transportation and shipment along other routes that are having more success. Alternatively, they could choose to temporarily shift to other commodities that may have less demand but prevent crippling losses in profit during periods of successful governmental interdiction. High demand and acceptable levels of risk will drive TCOs to become more innovative to satisfy the

demand and maximize profits. Constructing tunnels and using ultra-light aircraft to deliver illicit goods into the U.S. are current innovations TCOs use to circumvent effective border control operations.<sup>14</sup>

The persistent nature of criminal/gang violence in Mexico is linked to both the concept of clusters and competitive advantage. Primarily, the conditions of the operating environment in Mexico are permissive to the growth of organized, criminal activity because some of the government’s security and judicial institutions are relatively weak. Further, the socio-economic conditions create a steady pool of unskilled/semiskilled labor and high demand for assistance in gaining illegal entry into the U.S. These are factors the government must address if Mexico hopes to reduce the influence of TCOs. Effective strategies to combat TCOs should focus on reducing the factors that enable these clusters to form. This must be a bilateral solution between the U.S. and Mexico, as neither side can effectively do it alone.

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### ***Firm strategy, structure, and rivalry***

The fourth determinant of competitive advantage relates to the strategic vision, structure, and degree of rivalry that exists among firms. Vision and structure can be heavily influenced by basic and specialized factors of production. Specifically, access to financial capital and skilled personnel capable of creating and implementing strategic goals strengthen a firm’s competitive advantage. In addition, Porter believes that rivalry is a critical factor

in developing the efficiencies in operations that truly maximize a firm's competitive advantage. The rationale is that rivalry forces firms to avoid complacency and continually seek to improve their product, lower their costs, and maximize the potential of their operations.

Rivalry for Mexican TCOs comes in two forms: competition against other TCOs for larger profit share and competition against the state for survival. For these reasons, Mexico's third-generation gangs must be strategic-minded, capable organizations to survive. The nature of this environment reinforces the severity of the problem that TCOs present local law enforcement, Mexican federal agencies, and U.S. state and federal agencies. Third-generation, criminal gangs in Mexico have become extremely efficient and are completely integrated into both the legitimate and illegitimate worlds, which makes the movement of their illicit goods and capital that much more difficult to observe and interdict. Further, the nature of their networks (infrastructures) is extremely sophisticated. Their ability to outsource to existing lower-level criminal organizations for stages of production and/or distribution prevents them from being tied directly to the activity. Additionally, outsourcing allows for

and continue to refine processes to maximize profit, which is a function of perfection through competition. Those that cannot adjust quickly enough to changes in the operational environment will either be destroyed through interdiction or absorbed by other players.

## **Building a Strategy**

The power and influence of a TCO (third-generation gang) cannot be successfully reduced through efforts that lack a comprehensive approach. The nature of TCO operations in the global environment creates an uncertain network of players and a complex infrastructure that exploits both the licit and illicit economies. In addition, TCO operations are rife with "unknown unknowns" that have the potential to cause unforeseen, negative, second- and third-order effects. The complexity of the problem creates a myriad of disjointed policies that attack parts of the problem without attacking the whole. These policies create many duplications of effort and decrease the efficiencies necessary to reap the benefits of a truly, comprehensive approach. In the case of southwest border security and Mexican TCOs, polemic issues, such as the trade of illicit goods (weapons, narcotics, human trafficking, money, and intellectual property), illegal immigration, the disturbance of trade routes between the U.S. and Mexico, violence along the border, and the threat of terrorist infiltration into the U.S., are symptoms. These are the issues that make southwest border security a salient issue to Americans. However, TCOs have their hands on all of the aforementioned issues. TCOs are the center of gravity around which the U.S. government should design all southwest border security strategies.

Military strategists and planners must understand the type of war they will fight before they develop any effective strategy. The same rationale applies to targeting TCOs. TCOs are strategic minded, rational actors who subscribe

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greater entry into more markets at a lower cost because they do not have to develop their own infrastructures. They simply piggyback off existing infrastructures as long as it is convenient to meet their goals. TCOs are able to survive because of the sophistication of their designs. They stay ahead of the demand swings

to a self-help model that seeks to expand their degrees of influence and impunity to an optimal point that maximizes profit without causing their host nations to fail. Like other actors in a realist model of international relations, they are most likely to pursue violence as a matter of survival or to exploit an opportunity to grow their shares of the balance of power within the system. Their motives, actions, opportunities, and limitations are similar to those of an MNC. The end goal for both is to maximize profit while ensuring their survival within the system. For this, they seek to exploit and grow areas of competitive advantage.

If the U.S. truly desires to establish a “twenty-first century border,” it must synchronize efforts to attack the TCO network in a unified manner that effectively reduces its areas of competitive advantage.<sup>15</sup> The U.S. should establish lines of effort to specifically target the specialized factors of production that enable TCO operations, specifically, degrees of impunity, specialized labor, ability to move financial capital over international borders to support operations, and infrastructure (logistical and financial).<sup>16</sup> This goal can only be achieved through a coordinated and unified effort among federal agencies that specialize in interdictions, investigations, and prosecutions. Additionally, the strategy should work to enforce/establish policies that most effectively reduce demand for commodities that are most profitable for TCOs. Moreover, an effective policy must delineate a plan to strengthen governmental institutions and broaden existing jurisdictions/authorizations that will reduce the seams along which TCOs operate with relative impunity. Effective strategy cannot be a unilateral effort. The issues with Mexican TCOs are a shared concern for both the U.S. and Mexico, and diplomatic efforts should treat them as such.

However, a plan to build and prepare the friendly infrastructure to control instability and violence and successfully prosecute criminals must be in place before introducing any of these more aggressive strategies. TCOs are capable of using extreme measures of violence, especially when they see opportunities to expand and during periods when their survival is at stake. Reducing TCOs will disturb the balance of power within the criminal system. When power vacuums arise, all echelons of gangs will use force to expand their opportunities to fill the void and increase their profit share. Additionally, successful government interdiction that reduces the competitive advantages afforded to TCOs will force them to respond violently against authorities for their survival. This situation should be expected and fully included in the first phase of any strategy development.

The 2011 “Strategy to Combat Transnational Organized Crime” does well to address many of these key issues. However, an effective counter-TCO program must establish a formalized, joint interagency task force or committee with the authority to direct and coordinate efforts among member agencies. Creating such an organization would make it possible to reduce the multitude of existing strategies designed to attack the symptoms of the problems that TCOs create and reduce governmental costs through greater efficiencies in operations and the elimination of duplicated efforts. Further, it would establish an oversight authority with both a “carrot and a stick,” which is an essential element to move such an endeavor toward a more unified end. The best efforts may only marginalize the influence of TCOs; however, the ability to reduce their influence to a manageable level for local law enforcement agencies is a realistic and attainable goal. A comprehensive and unified approach increases the possibility of reaching a goal that promotes stability and prosperity within Mexico and strengthens its relationship with U.S. **IAJ**

## NOTES

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- 2 John P. Sullivan, "Third Generation Street Gangs: Turf, Cartels and Net Warriors," *Transnational Organized Crime*, Autumn 1997, Vol.3, Issue 3, p. 106, cited in Max G. Manwaring, "Street Gangs: The New Urban Insurgency," monograph, Strategic Studies Institute, U.S. Army War College, Carlisle, PA, 2005, pp. 9–11.
- 3 Roger Gilpin, *The Political Economy of International Relations*, Princeton University Press, Princeton, 1987, in Jose Gustavo Roger, *The Latin American Role in the Context of Economic Globalization*, Universidad de Belgrano, Buenos Aires, 2009, p. 66.
- 4 Roger Gilpin, *Political Economy of International Relations*, Princeton University Press, Princeton, 1987, p. 8.
- 5 Barack Obama, "Strategy to Combat Transnational Organized Crime," National Strategic Document, The Office of the President of the United States of America, Washington, July, 25, 2011, p. 20.
- 6 Garrath Williams, "Hobbes: Moral and Political Philosophy," Internet Encyclopedia of Philosophy, May 21, 2003, <<http://www.iep.utm.edu/hobmoral/#SH5a>>, accessed on April 28, 2012. Hobbes describes the social contract of the state as the situation wherein the governing body removes certain rights and freedoms in order to limit anarchy in the system. The populace willingly concedes these freedoms in order to enjoy a higher degree of protection and predictability.
- 7 Oded Löwenheim, *Predators and Parasites: Persistent Agents of Transnational Harm and Great Power Authority*, University of Michigan Press, Ann Arbor, 2007 pp. 64-65.
- 8 Ben Zweibelson, "Cartel Next: How Army Design Methodology Offers Holistic and Dissimilar Approaches to the Mexican Drug Problem," *Small Wars Journal*, 2011, p. 6, <<http://smallwarsjournal.com/jrnl/art/cartel-next-how-army-design-methodology-offers-holistic-and-dissimilar-approaches-to-the-me>>, accessed on September 19, 2012.
- 9 Manwaring, p 1.
- 10 Michael Porter, *The Competitive Advantage of Nations*, Free Press, New York, p. 72, 1990. The Determinant of Advantage model advanced by Harvard University Professor Michael Porter is the basis of my application of TCO structure to a business model.
- 11 A.M. Rugman and J.R. D’Cruz, "The Double Diamond Model of International Competitiveness: Canada’s Experience," *Management International Review*, Vol. 33, No. 2, pp. 17–39, 1993. Porter’s Determinant of Advantage Model was updated in 1993 to the Double Diamond Model to demonstrate the effects that the variable factors have on the competitive advantage of MNCs domestically (inner diamond) and internationally (outer diamond).
- 12 The description of the determinants of competitive advantage and their relationship with each other is based on notes from a lecture in 2009 by J. Gustavo Roger at the Universidad de Belgrano, Buenos Aires, as part of the graduate school curriculum in International Relations. I designed Figure 1 from a similar graphical representation of Porter’s model used during the course of instruction.
- 13 Obama, p 6.
- 14 "National Drug Threat Assessment," National Drug Intelligence Center, U.S. Department of Justice, Washington, 2011, p. 15.
- 15 U.S. State Department, <<http://www.state.gov/j/inl/merida>>, accessed on September 19, 2012. One of the four pillars of the Merida Initiative.
- 16 Within the 2011 "Strategy to Combat Transnational Organized Crime," elements of specialized labor are identified as "facilitators" (accountants, attorneys, notaries, bankers, real estate agents) and "specialists." I would agree with this assessment, but would add financiers and corrupt civil servants/elected officials and stress the need to target the "gatekeepers" who control access at border crossing points.