

Legitimate and Illicit Entrepreneurship: An Opinion Concerning the Relation of Convergent and Divergent Business Development Strategies

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Business consulting and training are popular vocations in the United States. In business school, students receive training that should give them the tools to help others develop competitive advantages in business over laypersons. However, history has shown that this is not nearly always the case. Bill Gates, arguably the world's most successful entrepreneur, was a college dropout. Although Gates' rivals at Apple Computer, Steve Wozniak and Steve Jobs, did attend college, they had no business training before founding Apple Computer. Like Gates, Michael Dell dropped out of college before finishing his degree program but he now heads one of the most successful computer manufacturing companies in the world. Thus, one can argue that academic business education does not always result in competitive success in the market.

The focus of this research, however, views entrepreneurship from a different angle. In the underground of society, there are also burgeoning "success" stories. Organized crime is a functional part of the American social system that, primarily, minorities and immigrants have used as a means of upward mobility. It was estimated that, at the time of his death, Colombian drug cartel kingpin Pablo Escobar's fortune was worth more than one billion dollars. This from a former peasant who received a scant formal education. The same parallel can be drawn from crime legends such as Al Capone, Charlie "Lucky" Luciano, and Meyer Lansky. Although these men formed the basis of

their empires on crime, violence, and related activities, they each had to formulate and enact innovative business strategies to gain advantages over their competitors. The "training" that they received was not from formal education but that of the street variety from when they were honing their craft.

Many of today's criminals face the same situation. It seems logical that one cannot be a successful drug dealer/distributor unless one understands the intricacies of personnel management and logistics. It is also just as logical to assume that one cannot be a successful confidence artist unless one knows something about social psychology. Although the areas that these illicit entrepreneurs (criminals) exploit are not legitimate, their constructive strategy talent and ability to manage emergent situations can be hypothesized to be similar to that which must be mastered in legitimate business circles except with the threat of dire consequences in the case of failure.

Legitimate Entrepreneurship

There is no single accepted definition of an entrepreneur (Gartner, 1988; Low and MacMillan, 1988); or, what actions and processes are considered entrepreneurship (Schumpeter, 1934; Kirzner, 1973). Past research on this matter has not solved the quandary.

While there is still no standard definition of entrepreneurship, the working interpretation accepted here includes "purposeful and successful

activity to initiate, maintain, or develop a profit-oriented business" (Livesay, 1982). This definition is useful because it serves to ascertain the ambiguous nature of the entrepreneurial act. It is broad enough to capture most notions of personalities and processes that have commonly been associated with entrepreneurs who perceive market opportunities and act to exploit them.

It is known that rates of entrepreneurial activity vary in different cultures even though there are parallels in social and economic development (Shane, 1992); and, research has shown that cultural values play an important role in the entrepreneurial orientation of individuals (McGrath et al., 1992).

The processes that entrepreneurs traditionally use to establish business ventures are well known. Cooper and Dunkelberg (1986) identify four typical paths to ownership:

Start-up: Developing an independent business from the ground up.

Purchase: Buying an already established business enterprise.

Inheritance: Obtaining ownership of a business from an estate.

Promotion: Obtaining ownership of a business through succession.

During Cooper and Dunkelberg's study, minority business owners of each race and ethnicity were found to be much more likely to enter business ownership through their own start-up activities. This finding is attributed to an escalating emergence of minority

entrepreneurship. Reynolds (1991) describes the dominant theme underlying minority entrepreneurship as blocked opportunities in the majority society (sociocultural displacement). The challenge is to understand the differential behaviors and contexts of various ethnic groups.

For example, using data from the late 1960s and 1970s, Auster (1988) examined African-American and Caucasian business owners in three urban areas in order to describe characteristics of both owners and the businesses. African-American business owners were found to have fewer years of both education and business experience. African-American businesses were found to be smaller and less profitable. Auster did not, however, find significant differences between the survival rates of African-American and Caucasian owned businesses. Auster posits that one explanation for the lack of a significant difference in survival rates is that African-American business owners lacked alternative employment options, a reoccurrence of the decreased opportunity cost explanation previously offered by Leibenstein (1968). She concludes with the suggested public policy implications that increased funding and business training to African-American business owners have the potential for improving the profitability of their businesses, and ultimately the underlying problems of the urban neighborhoods. Thus, incidences of urban crime are posited to decrease with heightened sophistication and dissemination of legitimate entrepreneurial knowledge and processes.

Illicit Entrepreneurship (Crime)

Based on most academic views of entrepreneurship, it is feasible for one to categorize organized crime as a variant form. However, the fact that the criminal activity is illicit does not remove it from the realm of operational entrepreneurship. The development and exercise of organized criminal enterprise can be closely related to the Cooper and Dunkelberg (1986) framework (listed above).

However, not all organized crime is entrepreneurial. There are two types of organized criminal networks described by Ianni (1998). The first of these, associational criminal networks, is the familiar version of the Italian “mob” or “Cosa Nostra.” Associations are formed, usually from childhood or prison experience, based on ethnic heritage, geographical centralization (“the neighborhood”), and family relations. These “Mafia” organizations emulate the standard multinational corporate structure, along with its internal bureaucracy and reactive inflexibility.

The second type of criminal organization described by Ianni is the entrepreneurial network. It is apparent that this is a predominant form for African-American and Puerto Rican crime organizations. The entrepreneurial network follows the model of the small businessperson, the individual illicit entrepreneur, whose criminal enterprise is conducted through a network of individuals under his or her authority. In fact, this form of criminal organization is comparable to the network of support formed by the owners of small, legitimate businesses. One individual manages the activity of the others and is responsible for their salaries, commissions, or other compensation. There is little bureaucracy among the network, and most employees have direct contact with the managing illicit entrepreneur. In terms of financial exposure, it is the central illicit entrepreneur who must bear the risk of funding and managing the venture. In fact, if an employee does accumulate significant risk capital, he or she is likely to attempt establishment of an independent network of his or her own. Interestingly, employment in this type of criminal enterprise is viewed as little different from any other job. Similarly, if the business of the network is successful, the boss is likely to have many of the traits of any good entrepreneur, including recognized status as a businessperson in his or her neighborhood. It is this relationship between the illegal enterprise and the community that is most significant. Despite the illic-

it nature of the “business,” many residents and neighborhood associates of these networks (especially those of the same ethnic background) view them as legitimate. Thus, the inference is that, in some communities, African-Americans and Puerto Ricans view crime and business in different terms than the social majority.

Additional research supports this view. Myers (1992) explored the links between self-admitted drug dealing and labor force behavior to determine if and how returns to employment influence the decisions by both African-Americans and Caucasians to enter drug dealing. Using data collected on inmates in prisons and jails in California, Michigan and Texas, it was concluded that African-American and Caucasian offenders vastly differ in their perceptions of criminal opportunities. It was discovered that the dominant factor contributing to entry into drug selling, especially among African-American males, is unattractive market opportunities, which is consistent with the findings in legitimate entrepreneurship research. One cannot determine unambiguously whether this results from the lure of drug dealing for its entrepreneurial attractiveness or simply results from crime versus employment choices. In any case, evidence presented clearly demonstrated that racial differences in returns to employment explain most of the gap between African-American and Caucasian drug dealing.

Theoretical Consideration

Variant types of “undesirable” entrepreneurship within the larger society have been previously examined. The early impetus for the current perspective lies in previous attempts by scholars to understand how immigrants, or new members of host societies, develop a sense of economic stability (Butler & Greene, 1997). In the late 1800s Georg Simmel (1950) referred to what we call today “ethnic entrepreneurs” as “strangers” or “traders.” These people carried out the scorned practice of trad-

ing and commerce because no one else wanted to participate in a “commoner’s vocation.” Illicit entrepreneurs fit this analogy particularly well because they also operate below society’s accepted mores and standards. They can be viewed as strangers operating in stealth, masked among the law-abiding population. Since assimilation is not always possible (or desired), illicit entrepreneurship is one avenue that has developed over time to equalize social and economic disparity.

The perspective forwarded in this article is rational when one applies enclave theory as an investigative framework. Enclave theory traditionally examines “self-segregated” communities of ethnic origin that have as their primary concern the creation of new ventures and the development of a labor market within the confines of the host country (Nee & Nee, 1986). The enclave economy, therefore, is thus composed of sociocultural and economic elements. The illicit entrepreneurial enclave may be viewed as a division of the larger economy with an autonomous enclave economic structure that represents a highly distinctive labor market. Scholars who utilize enclave theory stress the positive cultural identity of the group and how members rely on resources within the community in order to develop, manage and maintain business enterprise (Butler & Greene, 1997). Since it has been reported that African-American and Puerto Rican entrepreneurial criminal networks do attain some legitimacy in their neighborhoods of operation (Ianni, 1998), such a community helps entrepreneurial criminals to successfully adjust to an advanced capitalist ideology and avoid the bottom of the socioeconomic structure of that society.

Suggested Research Problems and Relevance for Scholars

Considering the concepts and literature described above, this perspective poses several interesting research possibilities:

1. What are the similarities and differences between the strategic processes of illicit (criminal) and legitimate entrepreneurs? More specifically, do criminals perform equivalent market research, risk analysis, and competitive investigation in a manner similar to legitimate entrepreneurs?
2. Is there anything that can be gained from studying the strategic processes of criminals as a mechanism to make legitimate entrepreneurs more effective?
3. Most importantly, what is the likelihood that we can rehabilitate successful illicit entrepreneurs into legitimate businesspeople using their well-developed competitive skills?

This last inquiry is of particular concern to minority scholars. It is a sad fact that racial and ethnic minorities comprise a much larger percentage of the incarcerated population per capita than the social majority. Therefore, minority scholars should be the first to conduct necessary academic inquiry into those research questions that defy the common stereotypes that pervade the American social caste system. Sociological research occasionally compares criminal models of business to legitimate forms. Unfortunately, academic literature in business ignores illicit entrepreneurship altogether. Therefore, the natural result of this perspective is to explore illicit business practices and, more importantly, the strategies behind them to assess the uniqueness of various tactics and possible application to the legitimate business economy.

Conclusion

A potential argument, in its most basic form, is that a drug dealer is really an entrepreneur who is simply selling the wrong products. The viewpoint forwarded in this article proposes that scholars should investigate the business development strategies of all entrepreneurs — legitimate and illicit. While there has been much research

about legitimate entrepreneurship in the management literature, there has been little scholarly effort focused on the strategic implementation of illicit (criminal) entrepreneurship. Specifically, this line of inquiry is necessary to evaluate the similarities and differences in initiation, growth and diversification of all types of entrepreneurial enterprises. In this manner, scholars may uncover unique perspectives and new strategies that might be translated into legitimate forms of competition.

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Dr. Brice's current research is concerned with the effects of personality, culture, preferences, and self-efficacy on the decision whether or not to pursue entrepreneurial opportunities. He has also performed business strategy research concerning the effect of vertical integration on firm performance and the impact of technological opportunity and diversification on firm-level research and development intensity. His research findings have been presented at various conferences, and his articles have appeared in numerous scholarly and business journals. His endeavors have been acknowledged by awards and honors conferred by many organizations, including the Coleman Council for Entrepreneurship Education, the Southern Regional Education Board, and the Academy of Management, among others.

Dr. Brice founded and owned several firms ranging from film and television production/development to commercial construction to management consulting. Although a large portion of his work experience has been entrepreneurial, he spent time in the finance headquarters of the Engineering Division at General Motors as part of his M.B.A. requirements. He also has a background in nonprofit development, establishing programs that target affordable housing, economic development, and entrepreneurial training for at-risk and disadvantaged communities.

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