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DOI:

[10.1016/j.jwb.2024.101553](https://doi.org/10.1016/j.jwb.2024.101553)

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*Document Version*

Publisher's PDF, also known as Version of record

*Citation for published version (Harvard):*

Buckley, PJ, Enderwick, P, Hsieh, L & Shenkar, O 2024, 'International business theory and the criminal multinational enterprise', *Journal of World Business*, vol. 59, no. 5, 101553.  
<https://doi.org/10.1016/j.jwb.2024.101553>

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# International business theory and the criminal multinational enterprise

Peter J. Buckley, Professor <sup>a</sup>, Peter Enderwick, Professor <sup>b</sup>, Linda Hsieh, Professor <sup>c,\*</sup>,  
Oded Shenkar, Professor <sup>d</sup>

<sup>a</sup> Alliance Manchester Business School, The University of Manchester, Manchester, M15 6PB, UK

<sup>b</sup> Faculty of Business, Economics and Law, Auckland University of Technology, Private Bag 92006, Auckland, New Zealand

<sup>c</sup> Birmingham Business School, The University of Birmingham, Birmingham B15 2TT, UK

<sup>d</sup> Fisher College of Business, The Ohio State University, Fisher Hall, 2100 Neil Ave Columbus, Ohio 43210-1144, USA

## ARTICLE INFO

### Keywords:

Criminal multinational  
Internalization theory  
Contract  
Trust

## ABSTRACT

Criminal syndicates have been around for millennia. While some were founded to undertake cross-border activities, others have expanded internationally, evolving into sophisticated organizations that mimic multinational enterprises. The growing prevalence of criminal multinational enterprises (CMNEs) provides an opportunity to revisit international business theory, particularly internalization theory. We start by defining the CMNE, explaining its rise and interface with legitimate multinationals, and establishing similarities and differences with legitimate multinational enterprises. Then, we use the CMNE to “stress-test” the internalization theory of the multinational enterprise, set its boundaries, and offer theoretical development by way of extension, qualification, and refinement.

## 1. Introduction

At US\$4 trillion (2019), or 4.7% of recorded global GDP, transnational crime exceeds the share of agriculture in global GDP (The Millennium Project, 2021). The cost of dealing with such crime has been steep, for instance, fifty years of the “War on Drugs” has cost the US \$1 trillion (Pearl & Perez, 2018), with little evidence of success (Piaggio & Vidwans, 2019). One reason is the globalization of crime syndicates, some of which have come to resemble multinational enterprises (MNEs), featuring globally dispersed operations that build on accumulated or imported specialized knowledge (Shortland & Varese, 2016). Such criminal multinational enterprises (CMNEs) tap business opportunities wherever they are found. Mexican drug cartels “are like global corporations. If they can expand and broaden their customer base, they will” (Pop, 2020, p.A9). Like legitimate multinational enterprises (LMNEs), most CMNEs solidify a home base before expanding abroad, starting with trade, followed by foreign direct investment (FDI), setting up overseas subsidiaries, and forming alliances, e.g., with terrorist groups. Other syndicates such as the Nigeria-based Black Axe (BBC, 2021), that target overseas victims from their inception are ‘Born Global’, founded from the outset to leverage cross-border opportunities.

While the domestic activities of criminal syndicates have long been subject to enquiry in criminology and related disciplines, CMNEs receive

little attention. Barak (2016) estimates that less than 1% of criminology articles deal with CMNEs, and most of those cover transgressions by LMNEs, such as tax avoidance, interest rate manipulation, and environmental pollution. Globalization has however turned crime “from a local to a global event,” necessitating radical rethinking of how criminologists view criminality, its origins, repercussions, and policy implications (Viano, 2010). The time has come for scholars of international business (IB) to do the same, adding cross-border crime to the list of “Grand Challenges” (Bonnier & Bonnier, 2019; Buckley, Doh & Benischke, 2017; Hutt, 2016; United Nations, 2016), which includes health (Guedhami, Knill, Megginson & Senbet, 2022; Montiel, Park, Husted & Velez-Calle, 2022), rural poverty (Brandl, Moore, Meyer & Doh, 2022), natural disasters (Nielsen, Wechtler & Zheng, 2023; Oh & Oetzel, 2022), energy transition (Bass & Groggaard, 2021) and sustainable development goals (Montiel, Cuervo-Cazurra, Park, Antolin-Lopez & Husted, 2021).

In this paper, we establish the phenomenological existence of the CMNE as a distinct entity in the global economy and discuss their impact on LMNEs. We confront existing IB theories (focusing on internalization theory) with the challenge of explaining the existence and key attributes of CMNEs. Having identified the defining transactional features under which CMNEs operate, such as high risk, a dearth of formal contracts, and absence of regulatory oversight, we discuss the opportunities

\* Corresponding author.

E-mail address: [H.Hsieh@bham.ac.uk](mailto:H.Hsieh@bham.ac.uk) (L. Hsieh).

<https://doi.org/10.1016/j.jwb.2024.101553>

Received 13 September 2023; Received in revised form 23 April 2024; Accepted 21 May 2024

Available online 29 May 2024

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CMNEs provide in developing internalization theory, and how LMNEs might compete in a global economy intertwined with the underworld.

## 2. The criminal multinational enterprise (CMNE)

### 2.1. Definition and parameters

The FBI defines a Criminal Enterprise as “a group of individuals with an identified hierarchy, or comparable structure, engaged in significant criminal activity”. Transnational Organized Crime is defined as “self-perpetuating associations of individuals who operate transnationally for the purpose of obtaining power, influence and/or commercial gains, wholly or in part by illegal means, while protecting their activities through a pattern of corruption and/or violence, or while protecting their illegal activities through a transnational organizational structure and the exploitation of transnational commerce of communication mechanisms” (The US National Security Council, 2011). We hence define a CMNE as a purposeful (profit-seeking) durable organization that intentionally engages in cross-border criminal activity in overseas host locations. This identifies two defining characteristics: intentional significant engagement in criminal activity, and creation of an identifiable structure. These criteria enable us to distinguish between a LMNE, where illegal activities, when undertaken, are not central to a firm’s mission and are unknowingly or intermittently engaged in, and a full-fledged CMNE, where crime is the core activity. We provide an overview of similarities and differences between CMNEs and LMNEs in Table 1.

CMNEs have their roots in conditions not usually shared by legitimate businesses. They benefit from institutional breakdown, partly because they offer an alternative to state control and governance (Varèse, 2020). The Cosa Nostra in nineteenth century Sicily took advantage of a void in government control similar to the period during which the feudal order had broken down centuries earlier (Shelley, 1995). Like LMNEs, CMNEs undertake various operational modes (FDI, trade, alliances), establishing a physical and/or digital presence in accordance with standard entry theory, where costs, control and risk are key (Root, 1998). This implies a formal organizational structure and a degree of permanence allowing exclusion of transient undertakings created for opportunistic crime. Permanence is also implied by the underlying rationale of multinational business activities, the exploitation of market and institutional failures. LMNEs are effective in overcoming cross-border market failures, particularly deficiencies in intermediate markets (Buckley & Casson, 1976). Similarly, CMNEs seek out institutional weaknesses from corruption and state failure to escape detection and exploit judicial enforcement gaps. Discrepancies between what is defined as criminal across nations, regions and cultures facilitate opaque ownership (Naim, 2012) enabling CMNEs to employ arbitrage and circumvent detection and sanction.

A CMNE example is ‘Ndrangheta. We use it as an exemplar or “representative firm” to illuminate our preliminary discussion. Originating in Calabria, Italy, it is described by Interpol (2020:1) as “the most extensive and powerful criminal organization in the world”. It has operations in 32 countries (Sciarrone & Storti, 2014) and has built a financial empire of drug trafficking, corruption, and public fund diversion (e.g., rigged contracts); its estimated annual turnover is 44 billion euros (Johnson, 2020). The Ndrangheta engages in money laundering, exercising partial or full control of firms from construction and catering to gaming and waste collection. Contrary to common belief, it rarely resorts to violence and intimidation, focusing on collusion and fraud which are harder to monitor.

### 2.2. Opportunities for globalization of criminal activities

Historically, the international activities of organized crime consisted, at least initially, of those embedded in core operations, such as piracy or smuggling (Gillespie & McBride, 1996). Over time, organised crime has

**Table 1**  
Similarities and differences: CMNEs and LMNEs.

Similarities	Differences
1. Both CMNEs and LMNEs are driven by the interplay between demand and supply.	1. CMNEs may evaluate local business environments differently. CMNEs more likely to see opportunity in institutional weaknesses.
2. Profit is the prime motive for both.	2. CMNEs face an absence of market prices for many intermediate products e.g., precursor chemicals, trafficking vessels etc.
3. Both have an overriding customer focus.	3. CMNEs may be more flexible since they are not bound by sovereignty or legal concerns.
4. Both have benefitted from globalisation.	4. CMNEs require greater flexibility as there is evidence of a “balloon effect” in production and transit routes whereby law enforcement success in one area rapidly alters locational attractiveness.
5. Both have benefitted from technological change, for example embracing the internet, with CMNEs focusing on the ‘dark web’.	5. CMNEs may display higher levels of entrepreneurship than LMNEs. Members of CMNEs may have a higher than average risk tolerance.
6. Innovation is important to both, but for differing motives.	6. Governance – in the absence of formal contract enforcement a wider variety of governance mechanisms are adopted.
7. Both establish or coordinate cross-border facilities for the production, marketing and distribution of products and services with such ownership advantages providing a basis for overcoming costs of foreignness and in attracting alliance partners.	7. CMNEs adopt and adapt new technologies to frustrate monitoring and detection.
8. Both seek effective governance of cross-border transactions and for both the effective coordination of disparate GVCs is now a key ownership advantage.	8. In pursuing growth, CMNEs are more likely to pursue alliances as opposed to M&As perhaps because of the absence of a takeover market for such enterprises and the considerable information deficiencies that surround such secretive activities.
9. Both value flexibility in operations i.e., possess dynamic capabilities and are increasingly adopting network type structures. For CMNEs these increase network density making detection more difficult.	
10. Both respond to market and institutional failures (but in different ways).	
11. There are similarities in the growth and development processes of CMNEs and LMNEs. Both pursue internal and external growth paths.	
12. Both depend on widespread support from a range of other (legitimate) businesses, legal, financial, transport etc.	

Source: the authors.

gone global with illegal goods traded and transported across borders, sourcing from one continent, trafficking across another and marketing in a third (UNODC, 2010). The forces that triggered legitimate globalization have transformed the illegal economy (Andreas, 2011; Shelley, 1995; Viano, 2010). One is migration (e.g., Friman, 2004; Morselli, Tucotte & Tenti, 2011), which enabled arbitrage, e.g., smuggling humans and drugs from developing to developed markets, or moving arms in the opposite direction. A second is freer cross-border movement, e.g., within the Schengen area, and growth of free trade areas such as the EU and NAFTA, which have lowered monitoring of border crossing for people, goods, and services, facilitating logistics and new trade routes. A third is the criminal opportunities provided by emerging technologies. The globalization of crime, or “deviant globalization”, is one of the two most important changes in the underworld in recent decades (the other being technological change), transforming the way crime is committed and handled (Cockayne, 2016). The Internet, enabling exploration and exploitation of market opportunities, has created its own marketplace, with the Dark Web offering illicit drugs, counterfeit and stolen goods (UNODC, 2020). The growth of the Dark Web, emergence of blockchain and encryption, and new payment forms (e.g., cryptocurrencies) with lower transaction costs and anonymity have opened vast venues for criminal activities (Dierksmeier & Seele, 2018). It is estimated that illicit entities received \$4.9 billion in crypto in 2020, versus the \$2.8 billion

going to legitimate merchants (Ip, 2021). CMNEs are also involved in activities that are increasingly locationally mobile, such as cyber-crime. While such crimes appear to be regionally concentrated, particularly in parts of Eastern Europe because of lax regulation or government oversight, they are not tied to such locations.

### 2.3. The international adaptability of CMNEs

CMNEs have repeatedly proved their ability to adapt and seize many opportunities presented by globalization, engaging in both the legitimate upperworld and criminal underworld (Hignett, 2021). CMNEs monitor changes in environment and technology and adjust, demonstrating dynamic capabilities. The multinational drive of Mexican drug cartels is the result of the shift to synthetic drugs that are not tied to a crop and can be made anywhere in compact facilities, more difficult to detect (Pop, 2020). Site selection is driven by logistics, that is, proximity to customers or to logistics and transportation hubs that facilitate shipping, as well as by clustered expertise, as is the case in the Netherlands. Balsamo (2006: 374) reports that the Cosa Nostra has acted not like a criminal gang, but like a collective intellectual body, able to learn from its mistakes, adapt and counter the different measures used to fight it. The organization weathered each crisis “through its accumulation of assets, the development of its entrepreneurial dimension, the creation of strong and stable connections, based on a reciprocity of interests, with variegated environments of the legal economy and of the institutional world” (Balsamo, 2006:374, based on Turone, 1995:47). Indeed, the ability to infiltrate, lobby, or otherwise impact government to support or turn a blind eye to their activities is critical to the CMNE’s very existence. In so called ‘mafia states’ (Naim, 2012), collusion between the CMNE and the state, including agencies supposed to monitor and crack down on criminal activities, enables lucrative activities, such as winning government bids that are subcontracted to legitimate players, or receipt of fees for work that is never done. Below, we investigate the reasons for the existence of CMNEs, their boundaries and their internationalization patterns. This enables us to extend the theory of the MNE.

### 2.4. The impact of CMNEs on LMNEs

LMNEs can become entangled in CMNE activities through invisible links along the value chain. CMNEs may make a deliberate choice to involve LMNEs in their production systems to obtain critical skills or inputs, launder illicit funds, or reduce detection risk. A CMNE may also use a LMNE’s legitimate supply and distribution to smuggle illicit or contraband goods. An interesting case is the hybrid CMNE that engages with LMNEs on an enduring basis via alliances or ownership based on investment or loans. This may hold especially in sectors with mixed legitimacy value chains that blend licit and illicit doings, e.g., gambling, logging, and mining, where effective regulation and product traceability are challenging (D’Angelo & Musumeci, 2016).

CMNEs and LMNEs interact both direct and indirectly. Directly, LMNEs may be the victim of CMNE activities such as kidnapping, theft and cyber-crime, which may force LMNEs to exit an otherwise promising market or forfeit a vital raw material or skill source. If operating abroad carries a liability of foreignness, competing in a CMNE-prone environment entails liabilities associated with the unknown terrain of a shadow economy, the skills for which are unlikely to be available in LMNEs. Collusion with state actors, which may reach a point where a criminal syndicate becomes an instrument of government (Andreas, 2011; Balsamo, 2006; McCarthy-Jones & Turner, 2022), gives the CMNE an advantage over LMNEs. Moreover, LMNE may unknowingly do business with a firm that operates as a front for a CMNE, but buying from, selling to, or forming an alliance with a CMNE will see funds and capabilities diverted to criminal syndicates, with potential reputational and regulatory damage.

CMNEs may impose indirect costs on LMNEs (McDowell & Novis,

2001). The integrity of financial markets and foreign exchange control can be compromised by criminal proceeds. Liquidity issues and instability can be detrimental, particularly in small economies (Lai, 2011). When illicit funds are invested in legitimate businesses, those businesses enjoy a competitive edge over competitors, reducing competition and distorting market prices. CMNE economic involvement carries reputational risk, affecting the cost of funds, the ability to attract investment, and brain drain. Where criminality promotes corruption, there are welfare losses via underinvestment in public goods, inefficiency and rent seeking (Aidt, 2003). The emerging forms of transnational cybercrime produce additional costs, e.g., where data are stolen, intellectual property is lost, or funds are embezzled. There are also expenses related to investigation, system restoration, and productivity losses (Eaton & Volz, 2021). There is also reputational cost, as other organizations may hesitate to do business with a LMNE that renders their data vulnerable or interpret the event as a sign of inferior management.

### 3. Are CMNEs conceptually different from LMNEs?

It is not immediately clear if CMNEs differ significantly from LMNEs. There are similarities between the two. For both LMNEs and CMNEs, commercial activities are based on the interplay between demand and supply, with the primary goal of profit creation and a strong customer focus. In some cases, CMNEs may pursue the cultivation of power in a home or host country, achieved through organizational growth, exploitation of market or institutional weaknesses, or pervasive corruption. It is likely that such power plays are primarily used to increase or extend expected future profit flows given the high-risk levels faced by those managing CMNEs. A recent trial saw 207 members of Italy’s powerful ‘Ndrangheta drug syndicate sentenced to 2100 years in prison (CBS News, 2023).

Equally important are structural factors within the international system that generate disparities between demand and supply. Structural market and institutional failures between states assume a variety of forms. There are marked differences between states in their legal development and enforcement and, as a result, control of activities within and across borders. Similar asymmetries between legal systems mean differences in the legality or illegality of acts, likelihood of prosecution, and prevalence of extradition agreement. Economic inequality also contributes to crime likelihood, cost, and the ability to conceal criminal assets. Such vulnerabilities occur not just at a national level; politically and economically marginalized states, or segments, may be attractive criminal havens. Economic stagnation encourages black and shadow economic activities with officials soliciting bribes and fees to enable economic transactions, facilitating criminal groups (Felbab-Brown, 2013; Sung, 2004).

Both CMNEs and LMNEs leverage innovation. For LMNEs, this comes in the form of novel, often superior, products, appeal to new customer groups, and organizational arrangements that facilitate efficiency and dynamic adaptation. For CMNEs, innovation also comes from new offerings, often developed in the legitimate economy, such as synthetic opioids or ransomware, and in developing new transport modes such as manned submersibles in drug trafficking and financial transactions using cyber currencies. Furthermore, innovative organizational forms, often pioneered by LMNEs, are increasingly adopted by CMNEs as they shift from traditional, hierarchical family or clan-based groups to flexible networked or net-centric structures (D’Andria, 2011).

The pursuit of increased flexibility via network structures highlights a further similarity between LMNEs and CMNEs: the growing significance of global value chain (GVC) coordination as a critical ownership skill. This has been documented for LMNEs (Kano, 2018; Strange & Humphrey, 2019), but is particularly attractive for CMNEs, as dispersed location and ownership reduce detection risk and increase interception cost assisting CMNEs to build dynamic capabilities (Teece, 2007), ensuring continuous adaptation to changing conditions, particularly increase in choices (markets, production locations, governance forms,

communication modes).

The growth process of LMNEs and CMNEs displays broad similarities, with some variation. Both undertake internal and external growth, funded by retained earnings, more so for CMNEs who lack financing options in stock markets and bank lending and rely on earnings from illicit activities that carry high margins. CMNEs may prefer alliances over M&As, in part because of the absence of clear takeover markets for such assets and the information asymmetries that result from secrecy, and partly to compensate for financing constraints and the lack of specific expertise, as most CMNEs lack a formal R&D function.

While there are many similarities in the strategies and structures of LMNEs and CMNEs, there are also marked differences. CMNEs likely have less experience responding to competitors since they tend to enjoy monopoly positions over territory or sector and will violate or eject other claimers. It is plausible to argue that CMNEs display a different profile to LMNEs if they internalize different imperfections (market or institutional), seek different locational advantages, or use those advantages differently. For instance, CMNEs may exploit or exacerbate market or institutional failures rather than work to correct them. Such choices may be enough to make CMNEs a special case within extant theory, like service or digital MNEs (Banaliev & Dhanaraj, 2019; Boddewyn, Halbrich & Perry, 1986). In the following sections, key distinctive attributes of CMNEs (see Table 2) will be discussed.

### 3.1. Strategic attributes of CMNEs

CMNEs focus on criminal activities that involve cross-border value-adding. They are not attracted to local criminal activities, often referred to as ‘petty crimes’ such as burglary, carjacking or minor thefts. While there is growing evidence that in some cases such crimes as shoplifting to order are organized, this is more likely to involve local or national crime groups.

CMNEs focus on activities where there are benefits in linking international markets or where institutional failure is evident. In some cases, drug supply and modern slavery for example, CMNEs exploit international variations in demand and supply. If coca leaves are best produced in South America but processed cocaine is demanded in the United States (where it is illegal to grow coca plants) there is a strong incentive to integrate operations (growing, processing and supply) through a CMNE. In principle, this process is similar to an oil MNE that extracts oil in the Middle East, refines it in Singapore, and then distributes it in Australia. The underlying rationale is the efficiency benefits of internalizing operations rather than using arm’s length markets. For CMNEs a key benefit of internalization is the ability to maintain secrecy. These

types of criminal activity reflect non-transferable or location-bound advantages (Rugman & Verbeke, 2003). Undertaking such transactions contributes to the firm’s internationally transferable advantages (technical, market, knowledge, routines and coordination skills) through a process of asset recombination (Pitelis & Verbeke, 2007).

Such recombination demands high levels of internal entrepreneurship, a defining attribute of CMNEs. Recombination capabilities are tacit and firm-specific enabling “mega integration” where knowledge from component units of the organization facilitate a wider scope of operations (Madhok, 2015). For CMNEs knowledge pertaining to suppliers, distributors and compliant officials are critical and may have application to diverse streams of activity.

CMNEs invest in technologies designed to frustrate detection, leveraging technologies developed for the legitimate economy (encryption, cyber currencies), or adapted therefrom (the Dark Web). Lacking formal learning functions, CMNEs may resort to such strategies as inducing legitimate actors with very high remuneration or ad-hoc mobilization of technical talent from lightly regulated regions.

CMNEs display unique ability to exploit and draw support from a range of legitimate businesses (e.g. legal, financial, logistics) to provide the products and services underpinning their activities. The laundering of illicit funds usually involves legitimate financial institutions. CMNEs engage LMNEs where the latter are effective providers of critical services – logistic, financial and suppliers of intermediate products. In most cases it is likely that LMNEs are unaware of their criminal involvement and in some cases, e.g., drugs obscured in shipping containers, may play no direct role. More explicit engagement is likely when officials are coerced into corrupt actions or legitimate organisations partake in the considerable profits that can be made, for example in money laundering. The Ndrangheta, a financially sophisticated CMNE, infiltrated Italy’s health system and established monopolies on hospitals’ ambulance and other health services. They made huge profits from contracts given to their front companies, selling unpaid invoices by health authorities to intermediaries, who then sold them internationally to legitimate financial companies (Johnson, 2020).

Moreover, CMNEs appear to evaluate business environments differently, often being attracted to market and institutional weaknesses. In terms of received FDI theory, CMNEs are attracted to markets with little regulatory enforcement, high corruption and loose property rights; the exact opposite of what draws in legitimate FDI. CMNEs do not adhere to universal rules and regulations, and the substitutes they use, such as informal networks, are non-transparent, by default or intention, to frustrate authorities and competitors. CMNEs have unique capabilities that LMNEs lack and/or are unable to deploy. Information is

**Table 2**  
Key attributes of CMNEs.

Strategic attributes
<ol style="list-style-type: none"> <li>1. High levels of entrepreneurship. With higher-than-average risk tolerance, CMNE members identify and exploit opportunities that may not be apparent to law-abiding citizens.</li> <li>2. Investments focus on ways to frustrate monitoring and detection.</li> <li>3. Ability to draw support from a range of legitimate businesses -legal, financial, logistics.</li> <li>4. Unconventional evaluation of business environments. Likely to see opportunities in locational (market and institutional) weaknesses.</li> <li>5. Creation of strong ownership advantages in coordination and protection of fragmented cross-border facilities in the production and distribution of products and services, particularly in the coordination of value chains, the creation of alliances, the exploitation of market and institutional failures, and the management of transactional challenges.</li> <li>6. Novel governance approaches – lacking the conventional forms of compliance such as contract enforcement through the legal system, CMNEs make greater use of mechanisms designed to ensure commitment and minimise defection e.g., membership drawn from similar ethnic clans or tribal groups, variety of rituals, oaths, internal promotion based on kinship or loyalty and resort to violence.</li> </ol>
Structural Attributes
<ol style="list-style-type: none"> <li>1. High levels of adaptability in the absence of sovereignty or legal boundaries.</li> <li>2. Control boundaries that far exceed ownership boundaries.</li> <li>3. CMNEs may face higher coordination costs as a result of their widespread dependence on external parties, the distance and diversity of operations, and lack of institutional knowledge. This may limit the geographic scope of the CMNE.</li> </ol>
Transactional Attributes
<ol style="list-style-type: none"> <li>1. Speed of decision-making and implementation of strategies.</li> <li>2. Ability to coordinate and protect fragmented network chains involving a variety of partner organisations.</li> <li>3. Specific ownership advantages in the identification of, and engagement with, partner organisations while minimising transaction difficulties including adverse selection, information asymmetries and hold-up.</li> </ol>

Source: the authors.

disseminated on a need-to-know basis, making it difficult for outsiders to discern strategic intent and contemplate retaliatory moves. Combined with a lack of regulatory oversight, causal ambiguity is high, making imitation and other responses difficult. LMNEs lack the strategic and operational repertoire of responses to deal with CMNEs, while the latter have the capacity to disrupt and exploit legitimate trade (Williams, 1994), creating a unique competitive environment.

Both LMNEs and CMNEs experience, and respond to, market and institutional failures (Doh, Rodrigues, Saka-Helmhout & Mackhija, 2017), but not necessarily in the same way, though some variation is also typical in legitimate business (Dieleman, Markus, Rajwani & White, 2022). LMNE research highlights responses to such weaknesses by developing institutional alternatives ("market mending"), e.g., reliance on family businesses (where trust and reliability are assumed to be higher), diversified business groups (where licensing or regulatory exclusions encourage unrelated diversification), and the development of internal capital markets (where financial markets are underdeveloped). Longer term, under information asymmetries, LMNEs may signal their trust and reliability through longevity (Gao, Zuzil, Jones & Khanna, 2017). CMNEs may seek to exploit such conditions via collaboration with local officials, employing alternative contract enforcement mechanisms, and exploiting weak proprietary protection to source or produce fake goods, or abuse workers. Under extreme state failure, CMNEs may perform roles normally undertaken by social enterprise offering employment, income, and stability in chaotic circumstances. LMNEs may restrict investment in the face of institutional voids by using alliances to reduce exposure and links with local or state-owned firms where government involvement in the economy is prevalent. In contrast, CMNEs seek to capture weak regulation (Carpenter & Moss, 2013), targeting such environments to exploit conditions such as low transparency, pervasive corruption, information asymmetries, opportunism and uncertainty (Leidong, Peprah, Amartey & Rajwani, 2020). In such instances, CMNEs can be said to have a competitive advantage over LMNEs.

CMNEs have benefitted from technological change and two decades of globalization. Globalization has enabled CMNEs to more easily exploit locational and cost differences to establish cross-border facilities for the production and distribution of products and services enabling the creation of significant ownership advantages in value chain coordination. Technological change has provided new opportunities for profit and knowledge protection, for example cyber-crime through the Dark Web.

While value chain governance is a key ownership advantage for both LMNEs and CMNEs, we expect differences in the way such systems are organized. For example, compliance, such as contract adherence, does not apply to the production system for CMNEs who develop alternatives to ensure compliance and resolve disputes. These include membership based on trust and similarity (family and ethnic groups), disincentives to defection, rituals, oaths, promotion based on loyalty and not simply merit, and, not the least, the use of violence.

### 3.2. Structural attributes of CMNEs

In comparison to LMNEs, we expect CMNEs to display greater flexibility, the result of lack of constraints (disregard for national laws and sovereignty) and a "balloon effect" where enhanced policing efforts in one location prompt relocation to another. Flexibility may also emanate from the entrepreneurial nature and decentralized structure of many CMNEs that appear to adapt rapidly to changing opportunities. It may also indicate higher than average impatience and risk tolerance, both encouraging change (Chalfin & McCrary, 2017). Again, this gives the CMNE an edge over LMNEs when the legal, political or economic order fray.

CMNEs may face higher coordination costs as a result of their widespread dependence on external parties, the distance and diversity of operations, and lack of institutional knowledge. While this may limit the

geographic scope of the CMNE, alliances enable control boundaries to exceed ownership boundaries. Consistent with Rugman's observations concerning MNEs, many CMNEs are regional, with few bi-regional and still fewer global organizations. For example, some syndicates specialize in the smuggling of sex workers from Eastern to Western Europe, and the Italian mafia has presence in the Netherlands (Kleemans & de Boer, 2013). The Japanese Yakuza expanded into Korea, China (including Macau and Hong Kong), and Singapore (Adelstein, 2012). Regionalization may be one factor precluding (or possibly delaying) the advent of a real pax mafiosa (Andreas, 2011; Shelley, 1995). However, a few syndicates have gone global. The UNODC notes that most organized crime flows "begin on one continent and end on another, often by means of a third" (2010, p. 9). Examples, according to US Department of State, include the Russian and Balkan mafia, the Asian Triads, the Latin American cartels, and the West African Syndicates.

### 3.3. Transactional attributes of CMNEs

Trade in illegal services is impeded by trust, reliability and information asymmetry, encouraging internalization or cultivation of close relations with specialist suppliers of transport and precursor inputs. Internalization theory highlights a number of challenges that accompany the decision to internalize value creation. Key among these are problems of adverse selection, information asymmetry, moral hazard and hold-up with co-specialised assets.

Cross-border criminal activities typically involve complementary tasks and assets. The pooling of assets can be achieved in various ways – contracting, joint ventures, alliances and common ownership, with the different modes subject to varying transaction costs. The nature of criminal activities characterized by secrecy, specialization, non-formal incorporation and the absence of conventional contract relations, encourages the use of alliances to access external assets.

There appears to be a preference for CMNEs to form (typically loose) alliances with similar local organizations, large and small, as well as with political movements (Williams, 1998, 2001). Hall (2013, p.378) notes that large criminal cartels "rely on networking with other (cartels) ... internationally." Like legitimate firms, CMNEs establish alliances with competitors and non-competitors alike (Williams, 1994). Most of these alliances are vertical, with an upstream or downstream link. CMNEs also team with terrorist groups, themselves increasingly operating as multinational networks. According to D'Alfonso (2014), these alliances are driven by complementary skills and assets; for instance, Mexican drug syndicates have taken advantage of Hezbollah's strong network in Latin America to launder money, smuggle people, and finance operations, and procured the terrorist organization's knowhow and experience in digging and maintaining tunnels to develop infrastructure. D'Alfonso (2014) calls it "the terrorist equivalent of outsourcing." Criminal alliances have the additional driver of obscuring a criminal operation from authorities who struggle to put together a puzzle of many pieces. These alliances are neither contractual nor equity based but rather constitute informal, handshake agreements, though the sanctions for violation are probably as, if not more, severe. Criminal organizations have learned to deploy trust (De Blasi, 2020) as a substitute for contractual terms; after all, criminal syndicates typically emerge within a close kinship context that guarantees loyalty and minimizes defection.

Alliances offer a number of advantages over acquisition or contracting where CMNEs seek to pool resources. Alliances are particularly useful when only a portion of the partner organisation's assets are required. If the desired assets are also used in the business of the target organisation, acquisition could create further transaction costs in terms of cost, priority and timing. Similarly, for assets that are not clearly identifiable, contracting involves information asymmetries while acquisition creates potential problems of adverse selection and moral hazard. Acquisition is also discouraged by the difficulties of accurately valuing chosen assets, ex ante.

The nature of cross-border criminal endeavours also favours alliance type arrangements. For targeted assets that are highly specialized e.g., private submersible vehicles, there is unlikely to be a competitive market generating price signals, enabling suppliers of such assets to exploit information asymmetries creating a potential adverse selection situation.

Hold-up problems can also be experienced with transactions that require highly specific investments, creating assets that have much lower value in alternative uses. Contracting is unattractive to CMNEs under such conditions since neither the legal constraints on unfair tactics (damages) nor legally enforceable dispute resolutions are available. For cross-border criminal endeavours where time is of the essence e.g., drug supply, or because a product is perishable (human smuggling), hold-up in the form of delays must also be avoided. While these arguments might suggest acquisition as the optimal governance mode, this may not be the case for CMNEs.

The flexibility needs of criminal ventures favours alliances which avoid the need for the transfer of ownership rights (impossible in the absence of formal incorporation) or for an eventual terminal sale. Alliances also facilitate single- and varied transactions with micro compensation for solitary transactions enabling speedy decision-making and the implementation of focused strategies. At the same time alliance arrangements provide opportunities for learning, trust building and the evaluation of performance. Like the global factory (Buckley, 2009a), networked clandestine international ventures require a lead or focal firm, enabling the CMNE to bring a “unity of command”. Highly fragmented alliance structures (Gooris & Peeters, 2016) such as Brazil’s First Capital Command which boasts 40,000 lifetime members and 60,000 contractors (Economist, 2023) enable information protection by isolating knowledge of complementary tasks in a global drug smuggling syndicate. These arrangements help to explain the low incidence of acquisitions or takeovers in international criminal activities which usually relate to territorial arrangements where financial benefits are more easily assessed.

In combination the clandestine nature and network structures of CMNEs explain their position in the global economy. While there are examples of value chains involving only criminal enterprises, particularly at a regional level, such chains are in the minority. A global criminal economy, centred on the Dark Web, may be effective for hacking operations, but crimes that involve the cross-border movement of physical items (weapons, drugs, people, endangered animals) are likely to take a hybrid form, tapping into the resources of LMNEs.

Managing cross-border network criminal operations encourages the development of specific transaction-type advantages (Narula, Asmussen, Chi & Kundu, 2019). Such advantages have been found within business groups (Gaur, Pattnaik, Lee & Singh, 2019) which possess specialist skills in internalizing product and labour markets failures characteristic of their home country. The quasi-internalization of networked CMNEs requires specific skills in identifying and assessing partner resources, the development of behavioural incentives, and evaluation of social ties and reputation. Unlike LMNEs, it may be possible for CMNEs to impose fiat among external partners through a combination of incentives (profits, growth, positive reputational effects) and sanctions (punishments, negative reputational effects, elimination).

There is evidence of “enduring distinctions in the structure, organization, activities and culture” of criminal syndicates (Hall, 2013, p.378). The Cosa Nostra has a pyramidal organization with leaders overseeing a compartmentalized structure where knowledge is disseminated on a need-to-know basis to preserve confidentiality, whereas Camorra clans are fragmented (Balsamo, 2006; Sciarrone & Storti, 2014). The largest syndicate, ‘Ndrangheta’, has a horizontal structure, though it has a superordinate body presided by an elected member to affirm membership and settle internal conflicts.

“Fluid network structures” offer flexibility, agility, ability to operate clandestinely, and an efficient flow of information and knowledge (Williams, 1994, and 2001). CMNE subsidiaries operate as

semi-autonomous entities to deter detection and buffer potential damage, much as LMNEs do via legal and governance means, e.g., establishing stand-alone local firms thus shielding the main corporation from legal and reputational liability. CMNEs thus may best be analysed as “global factories” where internalization and outsourcing are orchestrated by a central HQ (Buckley, 2009b; Buckley & Ghauri, 2004), but one with considerably less power. For instance, DarkSide operates as a loose association of independent operators, more akin to a network of franchised real estate agents than a unified firm.

#### 4. Towards a theory of the CMNE

From time to time, IB has had to contend with changes in the business environment that seemed serious enough to challenge and test the central tenets of the field. The advent of service industries raised questions concerning the appropriateness of concepts and theories developed when manufacturing firms dominated (e.g., Boddewyn et al., 1986). The rise of the internet and ecommerce have challenged IB’s tenets where distance seemed to narrow or disappear (de la Torre & Moxon, 2001). Similarly, scholars debated the applicability of theories cultivated with developed market MNEs in mind, to emerging market MNEs, e.g., internalization theory (Buckley & Tian, 2017). In those instances, the theories have proved resilient, but the challenge has forced scholars to revisit taken-for-granted assumptions, question the universality of theoretical frameworks, and identify new contingency factors and contextual variants. CMNEs present similar challenges but also opportunities for significant theoretical developments that will simultaneously enlighten our understanding of LMNEs.

While sharing many characteristics with LMNEs, CMNEs possess some unique features that can ‘stress test’ and refine the theoretical landscape. Unlike LMNEs, CMNEs’ very existence is not anchored in law and formal institutions but, by definition, represent a deviation from it. There are no formal treaties that cover the ownership, governance, and operations of CMNEs, which, instead of legal authority, rely on traditional and/or charismatic authority (Weber, 1947). Lacking a legal basis to regulate or constrain corporate behaviour, parties rely on substitutes such as tribal loyalties opaque to outsiders. Transactions are governed not by formal contracts but by clannish commitments, underworld norms, and rewards and sanctions that create a strong deterrent for errant behaviour. While there may be a redress for internal grievances and conflicts via quasi-formal or ad-hoc mechanisms (e.g., underworld tribunals), there is no formal, independent jurisdiction to solve disputes, so bargaining power and ability to project and exercise power is the main deterrent. The conditions where signatories to a contract have no legal recourse is described in international relations as “anarchy” (Axelrod & Keohane, 1985).

##### 4.1. Theoretical issue 1: why do CMNEs exist?

The CMNE provides another opportunity to revisit the question of why MNEs exist and the centrality of internally combining ownership and locational advantages (Buckley & Casson, 1976).

The CMNE appears to meet these conditions, though its advantages differ from those of LMNEs. First, the CMNE has an ownership advantage when it comes to illegal activities, its bid-ridding experience may not be matched by local players or LMNEs for fear of legal sanction, reputational risk, and ethical standards (somewhat akin to the advantage of emerging market MNEs, see Luo & Tung, 2018). Second, those advantages cannot be transferred to others since they rely on a clannish network that cannot be replicated. Finally, locational advantage comes from the CMNEs’ ability to combine factor inputs from home and host nations, e.g., integrating production knowhow and distribution networks across diverse locations, which is difficult to replicate, especially given the opaque nature of illegal activities.

If CMNEs possess the features that give rise to the MNE, why is it that one finds, at least for now, a limited number of CMNEs, and hardly on

the scale seen in the legitimate world? As already noted, this is unlikely to be the result of successful law enforcement. [Verbeke and Yuan \(2010\)](#) offer recombination capability as the highest order ownership advantage (see also [Eden & Dai, 2010](#)), determining the transferability of advantage to multiple locations. It is possible that such capability is lacking in CMNEs or exists in a rudimentary form. Another possibility is that, as [Dunning and Rugman \(1985\)](#) propose, monopolistic advantage is a key CMNE edge, which may include scale, knowledge distribution channels, access to credit, and the like, something that only a few syndicates share. Monopolies are common in the criminal world where syndicates rarely exist side by side but rather fight over territory, a ruthless process that usually ends up with a single winner.

#### 4.2. Theoretical issue 2: the boundaries of the CMNE

In traditional internalization theory, the boundaries of the firm are set at the point at which the costs of using the market exceed internal organizational costs - "buying" is more expensive than "making". Managers compare external (transactions) costs - the costs of using the market-with internal (agency) costs - the costs of carrying out operations under their own managerial control. The balance of these two sets of costs determines the scope of firm at a given time. Managers endeavour to reduce agency costs. It is only when agency costs are falling relative to transaction costs that the scope of managerial control and therefore the size of the firm will increase ([Buckley, 2009b](#)).

For CMNEs, there is an absence of formal contracts (including employment contracts) and market prices. How then are CMNE boundaries delineated? The answer is, by substitution. Formal contracts are replaced by informal arrangements, which are typically based on condign authority (coercion, violence, or internal rules based on criminal agreements ("omerta", mutual obligations)). Trust is the key factor substituting for formal contracts, hence the family and clan-based organization of CMNEs. The modest span of trust as a coordinating factor limits enterprise size, and changing clan loyalties account for fissiparous tendencies. CMNE boundaries will be set by the span of mutual forbearance ([Buckley & Casson, 1988](#)), which is likely to coincide with the extent of family or kinship links, or the extent of clan membership. Contract enforcement cannot rely on legal processes and hence the resort to violence when contracts are not fulfilled. As many CMNEs come from low trust societies (or low trust social segments), this resort will be frequent. The extraction of rent from transactions will often be achieved by condign means.

It may be the case that MNE related theories could draw lessons from the CMNE experience, for instance, when examining operations without a contract. Such insights offer opportunities for development in internalization theory. Drawing on historical anthropological research focusing on "pre-contractual" societies (e.g., [Grundmann, 2022](#)), we may assert that there will be an evolution in CMNEs from pre-contractual to contractual firms. At the same time, if one concludes that the tribal logic ([Ouchi, 1978](#)) in CMNEs is relevant for LMNEs, this may challenge the current push to diversify boards and senior management in the latter.

In a world of rampant 'knowledge leakage', CMNEs offer clues on how to protect knowhow where intellectual property rights protection is weak or non-existent, e.g., by channelling information flow on a need-to-know basis. Moreover, they have adapted, evolved, and embraced new technologies in their business faster than authorities can keep up with, such as the use of cryptocurrency underpinned by blockchain technology in laundering illicit funds from darknet marketplaces. Transactions made using cryptocurrency are not easy to trace as they are recorded on decentralized ledgers (blockchains). Cryptocurrencies that incorporate additional privacy, such as Monero, are frequently used by criminal organizations ([Europol, 2021](#)). Drug cartels have developed sophisticated cryptocurrency operations to finance their business enhancing their ability to receive payment in one type of cryptocurrency and convert it to another to try to obscure the source of money ([CNN,](#)

[2023](#)). Blockchain has been labelled as 'a machine for creating trust' ([Economist, 2015](#), p.13) because it lets parties who do not fully trust each other collaborate, leading to lower information asymmetry, less need for monitoring, and reduced transaction costs in collaborative arrangements without extensive investments in trust building and partner experience ([Lumineau, Wang & Schilke, 2021](#)). This has important implications for the management and governance of LMNEs' foreign subsidiaries and external partnerships in GVCs.

In CMNEs, market prices are replaced by shadow prices, often set by CMNE hierarchy. Price setting may occur through negotiation (possibly involving competitive violence, and pricing determined by the relative power of negotiators), trial-and error, and customary or traditional rules. Prices may be set by volumes of trading - what the customer will bear. The absence of clear reference points - contracts and market prices - is likely to make CMNE organization chaotic and fissiparous. This is what we observe from casual empiricism - CMNEs are constantly fracturing, being taken over, closed down (by rivals or authorities) and indulging in random diversification. Thus, [Schumpeter \(1942\)](#) mechanism of "creative destruction" is even more applicable in CMNEs. The response to the lack of reference points accounts for the alleged flexibility of CMNEs, which results from a set of attempted responses by CMNE managers to taking make, buy or ally decisions under extreme uncertainty without signals from legitimate contracts, prices and information-generating institutions. This theoretical result accounts for Paoli's contention that "The supply of illegal commodities mainly takes place in a "disorganized" way and, due to the constraints of product illegality, no immanent tendency towards the development of large-scale criminal enterprises within illegal markets exist" ([Paoli, 2002](#), p.52). This tendency to break up into smaller units based on trust, family or clan, mirrors the outsourcing tendency of global factories ([Buckley, 2009b](#)). Both LMNEs and CMNEs thus resemble distributed networks but with differing organizational principles.

The pressure to find legitimacy will affect the governance of the value chain in CMNEs and accounts for the urge to seek legitimacy by meshing into a legitimate GVC. This allows escape from criminality and provides the market price and contractual certainty that help set the boundaries of the organization and to rationally manage internal activities. It is a CMNE feature that links with legitimate business provide stability and smoothing of earnings to the illegitimate activities by cross-referencing them with formal contracts and market prices. As [Paoli \(2002, p.52\)](#) says "Some lasting large-scale criminal organizations do exist, however, such as the Italian Cosa Nostra and 'Ndrangheta, the American La Cosa Nostra, the Chinese Triads and the Japanese Yakuza. Although these groups are usually presented as the archetype of organized crime, they are neither exclusively involved in illegal market activities, nor is their development and internal configuration the result of illegal market dynamics". Although this may be overstating the matter, the desire for an attachment to legitimacy is strong among CMNEs. This is a distinguishing theoretical consequence of the absence of formal contracts and market prices. The desire to legitimize transactions that accounts for large-scale money laundering and CMNE investment in legitimate property is not only a search for respectability but is also driven by the need to have the security of market prices and legally enforceable contracts. Only then can the proceeds of illegitimate activities be secured. This is a demonstration of the importance of the theory of the MNE's focus on long-term organizational principles. It can be argued that CMNEs seek legitimacy, but is it the same legitimacy sought by LMNEs? LMNE legitimacy is usually phrased as seeking receptivity by the host market ([Sun, Doh, Rajwani & Siegel, 2021](#)), but CMNE legitimacy is aimed at securing earnings and creating a respectable front (avoiding the attention of the authorities).

#### 4.3. Theoretical issue 3: patterns of internationalization

[Sciarrone and Storti \(2014\)](#) distinguish between CMNEs' intentional global expansion, based on a cost benefit analysis, and one that is driven



by law enforcement crackdown, a turf war which unsettles the power balance, or a government effort to quash organized crime at home (a 'push' factor). Criminal groups also expand abroad in search of resources such as labour or raw materials (Shelley, 2006), similar to what an LMNE might do. Varese (2012) found that the expansion of the Russian mafia to Italy was the unintended consequence of an internal conflict within the Russian organization. On the 'push' side, a law enforcement crackdown may drive a CMNE to foreign shores in the same way that regulatory pressure, e.g., regarding pollution control, might push LMNEs abroad. At times, LMNEs decisions are not the result of rigorous analysis, and SMEs in particular, are known to expand internationally on an opportunistic basis, e.g., piggybacking on a large MNE with whom they work as a supplier or otherwise. Contractor (2012) finds that being multinational is generally superior to remaining in the home base but acknowledges that certain contingencies may introduce exceptions to this rule, which might explain the inconsistent results on the profitability of internationalization. Understandably, there is no data whether internationalization is profitable for CMNEs.

As with legitimate firms, comparative and competitive advantages play a role in the emergence and performance of CMNEs, as well as their choice of business line and location. For example, Mexican CMNEs specialize in the drug trade, taking advantage of the country's strategic location between major producers in Latin America and the large pool of customers in the United States. Like LMNEs, CMNEs are motivated by investment opportunities, though risk propensity is likely higher. Drivers are not only economic: Sciarrone and Storti (2014) claim that mafia organizations seek not only profit but also power, and those personal considerations (say, opportunity for individuals and their close confidants to rise after successful expansion) also play a role. Personal motivations, e.g., undertaking an acquisition to establish legacy or due to envy have been considered in the expansion decision of legitimate firms (e.g., Goel & Thakor, 2010), but rarely so in CMNEs.

The location search of CMNEs is strategic, but at times opportunistic. Like LMNEs, CMNEs select host countries based on locational advantages and are attracted to high growth areas (Sciarrone & Storti, 2014). The difference is that CMNEs, while interested in broader economic growth, are attracted to activities that have traditionally offered opportunities for illicit operations, e.g., gambling, or have the potential to create such opportunities, including novel openings created by the Internet. CMNEs are drawn to crisis areas (Sciarrone & Storti, 2014), where few LMNEs venture. Also, as noted, locations where institutions are weak are attractive to CMNEs since they enable them to serve as substitutes or mediators, 'lubricating' transactions (Sciarrone & Storti, 2014). Porous borders are an advantage for smuggling, while a weak IPR regime facilitates trade in pirated and counterfeit goods. Thus, an institutional void, a typical negative for LMNEs, is a plus for CMNEs.

#### 4.4. Theoretical extension

Currently underexplored, if at all acknowledged, the CMNE is a valuable topic for developing internalization theory. The growing prevalence of these enterprises raises a host of questions, ranging from the theoretical to the pragmatic. On a theoretical level, the CMNE represents an opportunity to revisit our theory base and examine the implications of built-in assumptions such as those relating to contractual agreements. Internalization theory is more concerned with boundaries and geographical location than detailed predictions on internal structure (Casson, 2022) but CMNEs represent an opportunity to extend theory by utilizing the insights of Structural Contingency Theory (SCT). SCT maintains that an institution's organizational environment, its technology or its external levels of uncertainty correlate with its organizational structure. A more turbulent environment, volatile technological circumstances or high levels of uncertainty produce an organic structure, while their opposites produce a mechanistic one. The better the fit, so defined, the higher the effectiveness of the organization (Burns & Stalker, 1961; Pennings, 1975).

Decentralization in CMNEs is likely to be a manifestation of quasi-integration as described by internalization theory (Buckley & Casson, 2020), in that subunits operate semi-autonomously, and can react quickly to changing circumstances in their local environment. Lopes, Casson and Jones (2019) consider non-hierarchical relations in terms of collaborative arrangements, or cartels, but not in terms of organizational structure. The study of CMNEs allows an analysis of detailed structural arrangements that is not typically dealt with systematically in the internalization literature. As mentioned above, the more uncertain or turbulent the environment is, the more decentralized the organizational structure needs to be. CMNEs face more global uncertainty, in parallel with LMNEs (Buckley, 2020) and this is a trend among CMNEs, which are observed to have been shifting from strict hierarchy, traditionally associated with mafia types of CMNEs, to more decentralized structures. The analysis of CMNEs allows us to connect internalization theory with SCT. SCT assumes that a flat, decentralized structure works best in an environment of high complexity and high turbulence, which explains why CMNEs are increasingly adopting decentralization. A decentralized structure represents lower internalization, in between market and hierarchy. In a CMNE this is reinforced by lack of formal contract, substituted by clan types of loyalty. Moreover, at the extreme of an almost virtual organization (which we begin to see in some CMNEs, where hundreds of individual operators are loosely linked), we observe 'quasi-internalization' adopted to describe the loose relation between alliance partners. This obviously bears on organizational boundaries.

Internalization theory focuses on geographic location and can emphasize the home country as a key driver of decision making (Buckley & Casson, 1976). An interesting twist is that many CMNEs are deeply rooted in one location, say Sicily, and they use home location to cement coordination, as a substitute for hierarchy. This gives them a competitive advantage, analogous to IKEA selling 'Scandinavian furniture', using the home location as a cultural vehicle for integration.

Confidentiality, one of the key advantages of internalization as opposed to markets, is important to any firm, especially in a copycat economy, but more so for a criminal enterprise, that develops special features and skills associated with it. One way to maintain confidentiality is dispersion, where, as in an intelligence organization, each of the loosely connected actors only knows about a minute portion of the overall business and cannot give away other players even if they wanted, or under duress. In the above sense, quasi-hierarchy is superior to both hierarchy (where knowledge typically resides at the top) and markets (where knowledge is generally public). From an organizational structure perspective, the issue is not just decentralization but also the extent of what Weick (1976) calls "loose coupling", that is, how tight is the connection between the different parts. So, this is not only the level of vertical integration but also about horizontal interdependencies. In a way these are different though complementary types of internalization. The conceptual analysis of CMNEs is an important bridge between internalization theory and structural contingency theory with the opportunity to enhance both theoretical perspectives.

On an operational level, the CMNE may be harbinger of things to come, for instance, the advent of a decentralized network structure that may eventually become ubiquitous in LMNEs. On a policy level, IB may provide lenses and tools with which to address a phenomenon that increasingly represents a challenge to governments and law enforcement over the world.

We have found that though CMNEs have a different profile from LMNEs, they are fundamentally explicable within MNE internalization theory. While CMNEs (1) internalize different market imperfections and (2) seek different locational advantages from traditional MNEs, their behaviour mimics the decision-making and outcomes of LMNEs, there are important ways in which CMNEs differ from LMNEs, and these pose theoretical challenges, but also opportunities. CMNEs can exploit locational factors differently – for instance, they exploit market or institutional failures rather than seek to correct them and may actively seek to create institutional and legitimate market failure to extend their

operational remit. That CMNEs may intentionally destabilize legitimate markets in order to extend their operations may be an example of a potential contribution to political science and political economy and therefore the parallel study of CMNEs may extend the value and repercussions of IB theorizing. In international operations, national differences in the legality of products and services provide opportunities for CMNEs to engage in arbitrage. They seek locations of low-cost inputs for criminal activities and may operate from a “protected” base. CMNEs will differ from LMNEs in the labour and other assets they seek. The ways in which CMNEs acquire, develop, and incentivise these assets, also differ.

## 5. Managerial implications for LMNEs

This paper has shown that CMNEs learn from LMNEs, but LMNEs can also learn from CMNEs, e.g., operating flexibly and nimbly, doing business in the absence of market prices and contracts, and innovating under opaque conditions. In extreme cases of state failure, CMNEs may perform broader social functions paralleling the role of historical MNEs such as the East India Company. Events such as COVID and the 2008 financial crisis create such opportunities, and “failed states,” which attract little legitimate FDI, are attractive to CMNEs at least as an operational base. In such places, CMNEs can substitute for state functions because of their ability to dispense with market prices and formal contracts, both of which are scarce.

The growing involvement of CMNEs in a range of sectors is a concern for LMNEs and for their competitive responses. We can assume that in markets where the two types of MNE compete, the CMNE is likely to pursue one of two strategies: to eliminate legitimate competitors; or to incorporate them.

Elimination implies that because it does not compete according to market rules, the CMNE enjoys a cost advantage despite the perceived risk of detection and penalty. It may, for example, use ‘wage compression’ – such as tax evasion and non-payment of social security or insurance – to maintain competitiveness. In such a case it is the failure of the justice system to effectively pursue and punish such activities that provides an ongoing advantage. Appropriate state intervention should bring the costs of the CMNE above that of competing LMNEs ensuring a competitive equilibrium (and eventually a market dominated only by LMNEs). A failure of policy could see LMNEs driven from the market. In such a situation the LMNE should be a strong supporter of judicial intervention and seek to avoid doing business where judicial failures are evident (Marino, Timpano & Laufuente, 2023).

Incorporation may be the goal of the CMNE when seeking to launder profits, conceal illegal activities, and undertake frauds such as insurance or real estate. For LMNEs considering an acquisition or alliance there are clear characteristics of infiltrated business that they may seek to avoid, or which could be used to minimize their own likelihood of incorporation. Research (Project ARIEL, 2015) suggests that CMNEs are particularly attracted to business that generate cash (bars, restaurants etc.), that support illegal activities (transportation, financial services), that are subject to weak or emerging regulation (gambling, on-line sales), are in sectors poorly managed and controlled (construction) and are generally low technology and labour intensive (construction, utilities). Criminal involvement is also more likely in industries with low levels of competition, limited foreign investment and small average firm size. CMNEs also have a propensity for acquiring private limited liability companies that enable a fragmentation of shareholding inhibiting identification of beneficial owners.

The financial characteristics of incorporated firms also provide important indicators. Such firms have been found to have low levels of net debt meaning they do not need resort to banks and other financial institutions, exhibit high levels of debt to suppliers which may indicate the injection of illicit proceeds as trade payables, high levels of current assets enabling rapid liquidation, and low profits, perhaps a reflection of excessive profit extraction or a proclivity to acquire businesses in

financial difficulty. For LMNEs, ensuring the opposite of these traits (significant relationships with financial and other providers, low levels of debt and current assets and strong and stable profit levels), may serve to reduce the likelihood of incorporation within cross-border criminal ventures.

## 6. Conclusions

We have discussed the CMNE as a significant form of multinational activity in the modern global economy, a form of activity that has benefitted from rapid globalization and technological change. When we compare and contrast CMNEs and LMNEs we find the former are also amenable to conceptual analysis using widely accepted internalization theory. Like LMNEs, CMNEs appear to possess distinct ownership advantages that are combined with locational factors to explain their multinational success. While such factors differ between the two types of MNE they both face common transactional challenges including adverse selection, information asymmetries, moral hazard, and hold-up (in the economic sense). CMNEs have adopted pioneering substitute administrative arrangements including tribal loyalties, underworld norms and power projection to manage their global spread.

CMNEs’ internationalization has benefitted from their ability to substitute these alternative administrative mechanisms for formal contractual arrangements, their adoption of flexible organizational structures, and linkages established with other criminal or legitimate organizations to address internal resource gaps and/or to seek legitimacy aimed at securing profits and increasing respectability.

We see CMNEs as a valuable topic for testing and extending internalization theory and hope that others will pick up the challenge to better understand this form of multinational enterprise. Future research on CMNEs requires overcoming several obstacles, in particular those associated with data. Empirical testing is extremely challenging. Direct data collection is difficult and plainly dangerous, while anonymous tips cannot be verified or tied to specific actors and demographics. As a result, primary research is likely to be sparse and secondary data subject to questioning. Global crime data are limited and often absent in markets where crime is high, and organizations such as Interpol are understandably reluctant to share their data. Scholars will have to work with proxies that are far from ideal in validity and reliability, which may rule out conventional publication and hence the incentive to work on the topic. Still, we believe that the topic is simply too important to neglect.

We propose expanding interdisciplinary research – as much as CMNE research remains limited in related fields, such as criminology, this research can enhance our knowledge and understanding of the phenomenon. Interdisciplinary research should extend to methods; for instance, IB scholars could reinterpret ethnographical studies on crimes by applying internalization lenses (Enderwick, 2019). Leveraging IB as an integrative field, scholars could triangulate multiple data sources such as prosecution files, court files and media reports and apply social network analysis to understand the network structure of CMNEs and how their transnational criminal activities are organized. There is also an opportunity to draw on the complementary strengths of internalization and GVC literature (McWilliam, Kim, Mudambi & Nielsen, 2020) to study the governance arrangements in CMNE-orchestrated illicit GVCs. Cooperation has moved to centre stage and become the leading model for business and organisations to adopt, and although monopolies are common in the criminal world, criminal organizations are increasingly cooperating with one another to pursue their common goals (Hignett, 2021). Here too, IB’s knowledge base can contribute to our understanding of global criminal operations.

Future research could also help differentiate different types of CMNEs including variations in geographical reach, industry focus, strategic orientation and organisational arrangements. Our focus has been on a comparison of LMNEs and CMNEs, treating both as largely homogeneous. Further work breaking down these groups would be valuable, perhaps helping identify those LMNEs most likely to be

targeted for criminal activity, or those CMNEs having the most detrimental impacts on host countries. Longitudinal research is also needed. The business models of criminal enterprises have continued to evolve. With advancement in technology, highly skilled criminal entrepreneurs may find it more profitable to sell their criminal and technical knowledge through crimeware-as-a-service model than committing crimes themselves (Kraemer-Mbula, Tang & Rush, 2013). Deciphering such models should help understand born-global CMNEs.

Finally, cross-border crime is conducted not only by large CMNEs but also by small and medium sized enterprises (Reuter & Paoli, 2020; Williams, 1994). As perpetrators, criminally orientated SMEs are more agile and may have other characteristics found among legitimate SMEs, such as the tendency to focus on a single foreign market. As victims, SMEs seem more vulnerable to CMNE activities such as cyber-attacks because they lack sophisticated defences and can literally go out of business as a result. As actors, SMEs play a role (e.g., suppliers, partners) in CMNEs' illicit GVCs and may be set up as fronts for crime. The IB field has long focused on SMEs' role in globalization, and these skills can be brought to bear on cross-border criminality.

### CRedit authorship contribution statement

**Peter J. Buckley:** Writing – review & editing, Writing – original draft, Conceptualization. **Peter Enderwick:** Writing – review & editing, Writing – original draft, Conceptualization. **Linda Hsieh:** Writing – review & editing, Writing – original draft, Data curation. **Oded Shenkar:** Writing – review & editing, Writing – original draft, Conceptualization.

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