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Competitive Strategies in Contexts of Organized Crime: The Case of the Avocado Industry in Mexico

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Abstract

Mexico's avocado industry has experienced strong growth, but this has developed parallel to an intensification of organized crime activity in the country's principle producing region. In this context, the present article analyzes the strategic response of the avocado industry to a situation of intense criminal activity by examining how it developed competitive sui generis strategies in order to survive and expand in a context dominated by the presence of organized crime groups. The analysis develops the concept of social capital as an expression of competitive capacity to demonstrate how the avocado industry devised unique strategies to achieve growth in a setting of high insecurity. It also demonstrates this industry's great capacity to adapt to its context by utilizing certain intangible assets, especially its knowledge of local political structures and the dynamics of criminal groups.

Keywords: Avocados, Crime, Mexico, Michoacán.

Introduction

Mexico's avocado industry presents an important case of success in the context of the country's agricultural exports, where in 2017 its participation 45.95% of the total value of exports. From 2013–2016, average worldwide sales of Mexican avocados were valued in 1,740 million dollars per year, with a mean annual growth rate of 15.2% (SAGARPA, 2017). It is important to emphasize that the state of Michoacán in western Mexico was the source of 89.4% of all avocado exports. The recent years of growth by the Michoacán avocado industry (2005–2018) have transpired in parallel to an unprecedented wave of violence generated by organized crime activity in the state. Most avocado companies in

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Michoacán have been assailed by criminal groups that extort protection money (in Spanish: *derecho de piso*), kidnap their directors, fix prices, and force them to buy from certain suppliers (Cruz, 2014; *El País*, 2013), among other measures. There is no doubt that the presence of these criminal groups has had a strong negative effect on most entrepreneurial activity in this state.

It is against this background that the present article analyzes the strategic response of Michoacán's avocado industry to these circumstances of intense criminal activity by examining how it elaborated *sui generis* competitive strategies to survive and grow in a context characterized by institutional anarchy and the absence of the rule of law and clear rules imposed to govern their actions. The study, conducted using an ethnographic approach that included interviews with over 30 avocado producers, government functionaries, public security officials and journalists, observed how the avocado industry developed unique strategies to maintain itself and continue growing in a complex context characterized by high insecurity. It demonstrates the capacity of avocado companies in Michoacán to adapt to a menacing context by utilizing such intangible assets as their familiarity with local political structures and the dynamics of the criminal groups themselves.

Research in Mexico on the effects of organized crime on the competitive dynamics of domestic businesses is scant at best. While a significant number of studies have attempted to measure the regional impact of crime (Soria, 2017; Correa, 2013; Cabral, 2018), little work has been done at the level of enterprises (Fullerton, 2018; Ashby, 2013). Several factors have led to the development of this situation: the difficulty in accessing companies' privileged information, significant disagreements among firms, and the dynamics of delinquent activities at the regional level. Taking this last factor first, we find that in their initial stages of development the main criminal groups that operated along the border between Mexico and the United States were devoted primarily to transporting drugs to U.S. markets and were not active in other illicit activities, such as extorting money from the local society. Their business was to smuggle cocaine and other illegal substances across the border for sale in the U.S., where its principle markets were located. Those large cartels operated mainly as middlemen who moved drugs from South America to the U.S. by constructing and maintaining distribution chains that ensured handsome profits. They had no interest in other sources of illicit income or criminal activities at the local level. For these reasons, and because their actions had little impact on local population dynamics, Mexico's government showed little interest in curbing their delinquent activities.

Generally-speaking, transnational companies established in those border regions have been affected only slightly by delinquent activity, though this is not to say that there have been zero negative effects in local business circles there. Without doubt, the presence of criminal activity complicates the logistical maneuvers of local export companies, increases their labor costs, obliges them to make additional external outlays for security and surveillance, and often makes life unpleasant for their directors who reside in border cities. In this regard, however, the case of the state of Michoacán is quite distinct, for there a process emerged almost automatically as the drug cartels began to reconvert their profits from drug-trafficking by extorting resources from local societies. The fact is that the "business model" adopted by the predominant criminal group (Wainwright, 2016; Liverzani, 2015) established in this state –the *Caballeros Templarios* (Templar Knights)–

was based on extracting money from local companies and the wider society, such that they practically abandoned their original smuggling activities that involved collusion with a large cartel that operated in northern Mexico (Lomnitz, 2016; Aguirre, 2013).

The measures implemented by the *Templarios* included imposing quotas on agricultural production in the state, trafficking iron ore extracted from local mines and exporting it to China, overseeing the completion of public works authorized by municipal governments in the region, and serving as judges in disputes of a mercantile nature (Angel, 2015; Cuvillier, 2014), among others. Perhaps surprisingly, the avocado industry enjoyed success in exploiting the growing demand for this fruit in the U.S. despite the conditions under which it was forced to operate. Indeed, despite unfavorable local contexts, avocado production and sales have achieved sustained growth. The case of Michoacán's avocado producers is important because it offers a model for studying the influence of criminal activity on industry in today's world, one perhaps similar to that of Italy, where the reality of institutional weakness opened gaps of legitimacy which were filled by criminal groups that modified the competitive panorama of agricultural industries there (AFP, 2018); or that of Russia, where a great deal of entrepreneurial activity is explained by the specific dynamics of criminal groups that operate in that nation (Stratfor, 2007; Albin, 1995).

Review of the Literature

The competitive strategies that avocado growers in the region of Michoacán have adopted can be understood as a combination of cost differentiation and focalization that arose from the existence of abundant, favorable natural resources and conditions (*i.e.*, climate, humidity, elevation, land tenure) that have allowed the production of high-quality fruit that offers consumers unique organoleptic properties. According to Larmer (2016):

In 1994, Americans consumed a little more than one pound of the fruit per person per year —almost all from California growers, whose harvest comes only in the summer. Today, that figure is up to seven pounds per person year-round. Fueled by a growing Latino community and Hollywood stars promoting the health benefits of the fruit's unsaturated fats...

Aside from growing demand, a second contributing factor was the signing of commercial agreements with the U.S. that opened access to North American markets for Michoacán's growers. According to Bonales (2016), the variables of quality, price, technology and training all influence the competitiveness of the avocado export industry. It is important to point out, however, that this success has come at a price; namely, the widespread felling of the area's temperate forests to make way for avocado orchards. This process has entailed huge environmental costs (De la Tejera, 2013).

Michoacán's avocado industry is organized through a Central Association that brings together over 25,000 producers of different sizes and has allowed the implementation of centralized strategies by a regional industry that includes small growers with only 2 hectares of trees, to large-scale producers whose orchards can exceed 150 hectares. This association supports the development of significant relational capital (Still, 2013; Barao, 2011). But understanding this industry's export strategies does not suffice to comprehend

the strategic challenges that the avocado industry confronts due to the presence of criminal groups. The main organized crime groups that operate in Michoacán emerged from schisms in cartels devoted primarily to drug-smuggling. However, the country's so-called 'war on drugs', that the government launched in 2006, was successful in dismantling many of the logistical and distribution chains that had allowed those organizations to thrive. Unfortunately, this generated a situation in which criminal groups firmly established in Michoacán had to search for alternative activities –apart from drug-trafficking– to keep themselves afloat. The result was that ample groups of thugs set their sights on local societies for their means of survival. Under those circumstances, many chose the option of extracting money by victimizing local businesses and individuals through extortion, kidnappings, forcing businessmen and storekeepers to pay protection money, fixing the prices of goods, and controlling markets, among other measures. Despite the fact that the avocado industry suffered extensive harassment by those criminal groups, it managed to achieve significant growth in extremely complicated operating conditions.

Economic theory holds that the generalized presence of criminality weakens the performance of individual firms because delinquent organizations reduce levels of legality and security in wherever they operate (La Spina & Lo Forte, 2006), thus undermining both the socioeconomic context and the performance of local businesses. Organized crime makes wrest dynamism from entrepreneurial operations while simultaneously increasing levels of insecurity and uncertainty, and reducing the level of confidence and reciprocity between agents. In reality, organized delinquency acts as a tax imposed on local economic systems (Detotto & Otranto, 2010) because it increases the costs of doing business and diminishes the yields of economic activity. In short, it severely damages business efficiency (Albanese & Marinelli, 2013). Slutki (2018) holds that competition among enterprises increases as the influence of organized delinquency declines, and that the same is true for levels of innovation and competition for public contracts. This is because the control that organized crime may come to impose local markets distorts private economic activity (Centorrino, 1999; Dawid, 2002) by severely affecting investor confidence, threatening the safety of employees and businesses, and damaging the investment climate because it becomes extremely difficult to predict what future conditions might be.

Turning now to specific studies in Mexico on the effects of crime on companies, we find that González (2014) analyzed data from every states for the 2003–2010 period. His study revealed a clearly negative relation between economic growth and crime rates. Félix' (2015) work related increases in delinquency to reduced economic dynamism, while Romero's (2018) found that organized crime may even penetrate into legal markets where it causes economic losses to legitimate commerce by trafficking merchandise that is smuggled into the country and falsified. Lozano's research (2012) led him to propose an inverse relation between insecurity and investment growth and between insecurity and income growth. Likewise, Soria (2017) concluded that insecurity impacts such processes as training personnel and attracting human talent, two key areas of investment for most businesses that operate in Mexico. In contrast to these studies, Fullerton's (2018) analysis of retail commerce shows that criminal activity may actually benefit retail sales in the U.S. along the border with Mexico, while Ashby (2013) sustains that organized crime clearly discourages foreign investment in such areas as financial services, commerce and agriculture, but not necessarily in the petroleum and mining sectors.

In contrast to theoretical evidence which indicates that the presence of criminal groups impedes sustained economic growth, the case of Michoacán's avocado industry presents a diametrically opposed situation, because the years of the most intense organized crime activity coincided with a bonanza for this activity. The theoretical framework known as the *Resource-Based View of the Firm* may help explain the positive performance of avocado growers in a complex context that includes environmental hostility, for it holds that companies are made up of a heterogeneous mixture of tangible and intangible resources, and that their function is to develop or acquire such resources and then bring them together in ways that generate competitive advantages (Barney, 1991). This perspective further theorizes that enterprises combine resources, including physical, human and organizational capital, and that it is the "imperfect distribution" of these resources among different businesses and organizations in a similar market that can determine variations in their profitability. RBV thus centers on resources that have value, are scarce or difficult to imitate, and cannot be substituted for (VRIN) in order to explain how organizations may come to achieve such competitive advantages.

Additionally, RBV underscores the importance of internal resources –or strengths– that an enterprise possesses to deal with uncertainty, instead of capitalizing on the opportunities that a changing external context could present. The concept of environmental hostility, meanwhile, refers to perceived threats to an organization's main objectives (Khandwalla, 1972), and stresses such factors as intense competition over prices, products and distribution, scarce labor resources, and unfavorable demographic tendencies (Miller & Friesen, 1983). Hostile contexts are, by their very nature, unpredictable (Mintzberg, 1998), so businesses will succeed or prevail in such circumstances by being proactive in obtaining and conserving a competitive advantage (Covin & Slevin, 1989).

In the case of Michoacán, it is clear that a situation of environmental hostility came into being with the emergence of organized crime groups around the avocado industry and the setting in which those organizations dominated the everyday dynamics of entire local societies. Unlike other criminal groups in Mexico, the *Caballeros Templarios* were founded as an organization devoted to "protecting" the interests of all *michoacanos* against the assaults of other delinquent criminal bands, like the *Zetas*, who had infiltrated the territory from their base in the country's northern reaches (Angel, 2016). Given the conditions of lax institutional control and the fact that Mexican governments lack legitimacy at all levels (municipal, state and federal), this group's offers of support were widely-accepted at the local level, even by businessmen (Aguirre, 2013). Concretely-speaking, this offered consisted in regulating commercial, political and social affairs in local communities, so its members worked to resolve such problems as collecting debts and commercial lawsuits by mediating between the parties involved. Logically, of course, charging a commission for their efforts. Other kinds of litigation –over land or inheritance, for example– were also handled by these criminals. Finally, much political power came to be placed in the hands of these delinquents because they influenced election results by utilizing their ample resources to support candidates who favored them, while brutally intimidating rival politicians.

One explanation that could be elaborated to understand how this industry handled this hostile situation, is based on the concept of the social capital that avocado producers were

able to accumulate, which constitutes an internal capacity of this industry. Most producers had faced situations of violence in their localities and were well aware of the deep connections and interaction that existed between delinquents and communities. But one unique resource that avocado growers had was the intangible asset of their knowledge of the dynamics of criminal groups, and this could be conceptualized as a form of social capital. Portes and Sensenbrenner (1993) conceive of social capital as the expectations for action inside a group or organization that impact the economic objectives of its members. It is thus an intangible resource that manifests itself through the social structures that make up its relations (Putnam, 1995). In this conceptualization, close relations can create trust and obligations, while also defining expectations among commercial partners (Gulati, 1995). The social capital of avocado entrepreneurs was important as a unique internal capacity that allowed the industry to understand the internal dynamics of the criminal processes that were developing in the context in which they operated and, as a result, implement necessary strategic actions.

The concept of social capital has been utilized to explain diverse phases of criminal processes (Lampe, 2009; Yeşilyurt; 2014; Arias, 2006). In the Mexican case, organized crime groups present the peculiar characteristic of sharing a deep association with the everyday dynamics of the wider society. Given the Mexican State's inability to provide public security and enforce the law, some criminal groups are viewed positively because they carry out labors of surveillance and administer justice in areas around the country. The actions they perform in the regions where they conduct their criminal activity may include punishing common crimes, paying people's medical bills, giving children toys at Christmastime, and resolving legal disputes, all of which allow them to increase their presence in communities (Vasquez, 2014).

Methodology

To date, no substantive methodological focus exists for analyzing topics relating to organized crime in Mexico. In fact, even approaching this field of study has become "taboo" due to the extreme danger that researchers who dare to deal with it confront. Mexico is the second-most dangerous nation in the world for journalists, and the most perilous country in Latin America for this activity (Stack, 2018). Most of the journalists that have been assassinated had participated in news coverage concerning organized crime activities. One consequence of this generalized milieu of insecurity is that most research on topics related to crime takes the form of quantitative studies conducted from the 'confines of secure offices' using data from official sources of statistics, that often fail to provide precise details on the complex processes involved in the development and spread of organized crime.

Abundant details and particularities of criminal processes and their relation to diverse aspects of the lives of economic agents and society in general are known to exist, but they have rarely been studied or analyzed, precisely because of the aforementioned emphasis on quantitative methodological approaches that, while much safer to elaborate, do not necessarily shed great light on other substantive details. Against this background, the present study was deliberately conceived as a qualitative approach based on in-depth interviews with key actors in the avocado industry (Boyce, 2006). Our review of the literature served as the base that guided our discussions during the interviews. In fact, we

elaborated a guide for the interviews beforehand, striving to define aspects related to social capital, environmental hostility and the internal capacities that businessmen in the avocado industry used to adapt to the context in which they were forced to operate. The study also set out to understand the complex and subtle processes through which this industry managed to overcome a situation of environmental hostility generated by the presence of criminal groups that imposed rules and specific agreements on firms' activities. Due to the exploratory nature of our work, all questions were open-ended as we wanted to foment debate. Interviewees included avocado producers, leaders of business organizations, public officials at the municipal level, state functionaries, officials in charge of programs that foment agricultural activities and leaders of regional security forces. In addition, documental research was conducted to review newspaper publication on topics related to the avocado industry, and obtain data on its characteristics. A total of 30 interviews were held during through second semester of 2018, usually in the interviewees' homes or offices. The average duration of the interviews was one hour. Notes were taken on the most important aspects mentioned after each interview. The methodologies for collecting data used in this article were previously reviewed and approved by the academic office of the institution (CIC) in accordance with the ethical standards of the University.

Results

The businessmen we interviewed highlighted the existence of an adverse, even hostile, climate in terms of public security for conducting business in the zone:

We're accustomed to having to deal with robberies, kidnappings and extortions by diverse figures, since the beginning of the industry it's always been this way; but in past years with the arrival of the 'Familia Michoacana' and the 'Caballeros Templarios' things have gotten more complicated. The key to surviving in this context of extortion and violence was, precisely, forging agreements with the right people at just the right moment. That was what allowed us to survive. Somehow, we've gotten accustomed to having to deal with a hostile, complex context for our business.

In some way, the prior existence of social capital on the part of these businessmen allowed channels of communication to open up that led to the generation of an understanding of the dynamics of criminal groups that permitted the industry to survive. These businessmen also pointed out that their main advantage in dealing with a situation of extreme complexity by criminal activity like the one they were experiencing was, precisely, the existence and knowledge of the dynamics and internal processes that governed the operations of those organized crime groups:

We knew the area and people perfectly well; in fact, many of the packers that came from the States didn't know how to confront the problems with the criminals [so] we told them how they should deal with this matter and how things can be arranged so that everybody can get ahead.

Clearly, it was local companies' astute utilization of an internal ability forged through years of existence in, and knowledge of, the immediate social context, that allowed them to survive in these circumstances.

The situation of environmental hostility that this region is living arose from certain well-known conditions: the virtual absence of a juridical system, the lack of adequate regulations, and the null effectiveness of the rule of law. Our interviewees stressed that, in reality, all kinds of laws and regulations exist that people are supposed to obey. The problem is that they do not do so; rather, all matters are settled through informal agreements that allow things to move forward. This tacit recognition of the absence of the rule of law and juridical norms to regulate the behavior of the avocado industry is a finding that cannot be emphasized too strongly. In this context, these businessmen have simply had to adapt, and that has entailed finding effective ways of dealing with unexpected situations.

We realized that for most of us it was better to talk with them and reach accords than to enter into conflicts. We knew there was no authority at the municipal or state level that could defend us, so it was in our best interest to negotiate...

The specific situation they were living and the logical reasoning that led them to make agreements with the criminals meant that these entrepreneurs opted to consider establishing monetary accords with delinquent groups as just an extra cost of doing business, part of their operating overhead, or a kind of additional tax.

Michoacán's avocado producers were able to survive under these difficult circumstances—characterized by the presence of informal groups that exercised power and authority—by adopting a strategy based on the containment of the criminal groups. During some periods, almost all producers established implicit accords that allowed them to continue with their commercial activities. In various ways, then, the results of this research support the theoretical evidence reviewed above, which sustains that social capital can diminish crime by establishing agreements (Moore, 2013; Binik, 2019). Another element that must be underscored is that our interviews reflected the importance of collective and unified action on the part of the avocado industry.

The work of confronting the problems of insecurity was undertaken through common accord by most producers and our leadership. We weren't out there on our own; rather we were always attentive to what the Association told us.

Knowledge of local criminal actors, of the levels of communication involved in reaching agreements, and of informal rules and codes of values, together with an understanding of local police dynamics were all elements employed by avocado producers to devise adequate entrepreneurial strategies in a context of organized crime. The results obtained in our work align with earlier studies that described situations of anarchy and the absence of the rule of law in Mexico (Aguirre, 2015). The factors described may explain why these avocado producers achieved better performance than other industries, such as tourism or the automobile sector, which were unable to adapt to local conditions of

organized crime and opted, instead, to suspend their investments and commercial growth in certain regions (Reforma, 2016; Heraldo de México, 2017).

Conclusion

Since the early 20th century, criminology has sought to identify the ecological factors that influence increases or decreases in crime rates. In this sense, the “social capital” approach has attracted the interest of criminologists. The present study reflects the existence of the social capital that the avocado industry in Michoacán, Mexico, exploited in order to adapt to a chaotic situation of co-government by criminal groups with legally-established authorities. This capacity to adapt to a hostile context, together with their adoption of an adequate costs-and- distribution strategy, explains the relative success that the industry has enjoyed. Our work further demonstrates the integral nature of the concept of social capital for the *Resource Based View of the Firm*, the perspective that understands companies as a set of resources, including vital intangible assets that can create competitive advantages and generate higher profits. Social capital counts as one of these intangible resources. Our analysis of the case of the avocado industry indicates that the explicit inclusion of the role of social capital strengthens the explicative capacity of the RBV and of the perspective of the competitive context as a social construct that is maintained by numerous actors.

Many regions around the world currently live in conditions of political instability in which the presence of organized crime groups has become an everyday reality with which commercial companies are forced to deal. The particularities of the dynamics of criminal groups differ from one region to another, and the responses of businesses also emerge as a function of specific dynamics. Without question, in the case of avocado producers in Michoacán, the existence of social capital functioned as a fundamental element in the elaboration of a competitive strategy designed to counteract the negative effects of the presence of criminal groups. Theoretical approaches tell us that the presence of organized crime negatively alters the conditions in which industries operate, but the present case study demonstrates a strategic singularity that evolved from internal capacities and made it possible to mitigate the negative effects of criminal activity.

Finally, our study also contributes to opening up an important line of research that centers on the relations among social capital, competitive strategies and delinquency. In nations like Mexico, where organized crime groups with deep economic and political roots have enjoyed a long trajectory, one is forced to predict that delinquent phenomena will continue into the future. In these contexts, businesses will find themselves obliged to adapt to complex situations in which quantitative patterns of analysis are unable to provide the information required to understand many details of criminal processes and of the strategic options that firms adopt in such situations. It is necessary to include more elaborate, multidisciplinary theoretical constructs in order to reach a fuller understanding of complex processes like those examined herein.

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