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Forty Chinese Police to five-Star Bali Conference: scam?

Stephen Grainger wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Chunlee Yu and Zhou Zhang had grown up together and, since leaving university, had followed different paths in Chongqing: the former into the newly evolving real estate market and the latter into the police force. Both had gradually risen in the ranks to be near the top of their respective industries, a positioning where their long-term *guanxi*[[1]](#footnote-1) could provide each other with a portfolio of favours, opportunities, and approvals accessible only to the very few. Their lifestyle was good, their projects were successful, and they both reaped the rewards of helping each other, sometimes on projects that had questionable legal status. All was well until a new president of the People’s Republic of China, Xi Jinping, took office with his Disciplinary Committee, promoting the committee’s foremost mantra of wiping out corruption. In 2012, Chunlee and Zhou suddenly found themselves in potentially serious trouble after flying a whole section of the Chongqing Police Force to what was supposedly a conference at a five-star resort in Bali. Was this trip some kind of payoff, and had it really been a conference? They had questions to answer after one member of the tour exposed the trip’s integrity on WeChat and the 12345 Mayor’s Hotline. Would they face long jail terms or could they escape this dangerous new level of Xi-inspired corporate governance?

Background

Chunlee and Zhou had grown up on adjacent streets in Chongqing, and had attended pre-school, middle school, and senior school together. After graduating from university, the two had kept in close touch after starting their respective careers—Chunlee, as a school teacher, and Zhou, in the Wulidian section of the Chongqing Police Force. They had a variety of guanxi bases to solidify their friendship, including connections through family, as former classmates, and through location-based connections.

Chunlee had started as a teacher but he had an entrepreneurial spirit, and it had not taken him long to realize the opportunities to make significant amounts of money in China’s then emerging private sector. As a result, after three years as a teacher at a senior school, he found an opening through a reliable Communist Party friend to join the Chongqing State-Owned Real Estate Company (CSOREC), under the control of the Chongqing central authority. He worked there for the following nine years, learning how the market economy system worked, developing relationships with officials in this sector, and building friendships and guanxi with officials, real estate authorities, and members of government. Then, in 1998, Chunlee resigned to start his own private company. He was ready to follow China’s momentum into the market economy characterized by uniquely Chinese traits.

Through his experiences in the CSOREC, Chunlee had developed trust and guanxi with a sufficient number of powerful government employees and officials to make a smooth transition into his own business, and was almost immediately granted some private work on behalf of the CSOREC, where he had formerly worked. Over the next 12 years, he sold many properties and since 2007, he had broadened his portfolio into construction. Again, he had used his guanxi to gain the necessary approvals and authority to buy land, demolish existing properties where necessary, and (in their place) build eight-, nine-, or 10-storey modern apartment blocks. Chunlee continued to build trust with officials in high places, who helped by granting him the rights to develop these locations; in return, on many occasions, Chunlee had given an official a prime apartment in one of the blocks he was building. These gestures were always well received and several senior officials and members of the Communist Party had enjoyed the luxury of residing in one of his newly designed and constructed buildings.

In addition to these favours, Chunlee was a master in guanxi maintenance, investing his time and money in keeping in touch with his connections, many of whom had been his classmates in school and university, and some of whom had chosen a career in the government or in the Building and Planning Authority. As members of his guanxi network had all grown older, they were all able to increase the quality and value of the favours they provided for each other. They enjoyed their joint progress in society, and, at that time, the police and legal authority’s flexible standards of corporate governance and enforcement of the law.

Two of Chunlee’s closest friends in the Building and Planning Authority had helped him gain permission to construct an apartment block downtown, adjacent to one of Chongqing’s must-see tourist locations. In return, in the block he was then able to build, Chunlee had secretly given both senior officials a complimentary high-level apartment overlooking the lake.

In 2012, Chunlee had set his sights on the land adjacent to his completed apartment block, on which sat a very old building that was poorly kept, in decay, and approaching historical age. The property had been left in the will of a 73-year-old former Communist Party secretary and military officer, Cai Xiong, who had passed away in 2012. The property had been left to his son, Jinyu Zhin, who could enjoy the remaining 68 years of lease on the property. Cai’s original 99-year lease on the land had been formulated under some of the first property rights that had been developed and implemented under the reign of Deng Xiao Peng in 1981, but had since been revised numerous times. However, the initial legal agreement and the 99-year lease status of the property remained valid and in place. Cai had been a high-ranking, long-serving officer in the Chinese military; as such, he was unable to purchase the property outright but was granted a 99-year lease to honour his service and party loyalty.

Chunlee and Zhou's relationship

Chunlee’s oldest friend, Zhou, had been in the police force for 26 years by 2012. When Zhou had first left university, his father had used his position as a police inspector to gain Zhou entry into the police force. While his father still worked, Zhou had enjoyed a slow but steady rise up through the ranks; after his father’s retirement, several of his father’s former colleagues who still occupied senior positions in the police force had helped Zhou to be promoted to the senior ranks. Now, after his long and respected years of police service in the Wulidian riverside part of Chongqing, Zhou had reached the top position in his section of the city. During his rise over the years, Chunlee and Zhou had kept in contact, maintained their guanxi, collaborated on some projects, and enjoyed a long and trusting friendship.

Chunlee would again need Zhou’s assistance because he had two goals he wanted to achieve. First, he wanted to buy the old building next to his block of apartments down by the Yangtze River. Second, he wanted to demolish the building and construct another block of apartments. However, the 99-year lease and the terms of Cai’s will could create difficulties. Chunlee had his friend in the property authority investigate the conditions to determine whether it could be sold, and if so, the conditions of the sale. His friend discovered that the Chongqing Police had the authority to arrange the sale, provided the property authority could change the status of the lease. Chunlee started thinking about how this change in status could be achieved. He knew his old friend, Zhou, might be able to help, but he did not know anyone in the Wulidian Property Authority.

Convincing Zhin

Chunlee first needed to contact the new owner (via inheritance) of the building, Cai’s son Zhin, to see whether he was interested in selling the property. He found that Zhin already had a modern apartment, where he lived with his wife and daughter, and fortunately, he preferred to liquidate the asset and gain the attractive sum Chunlee was offering rather than worrying about developing the property himself. In fact, he had already inquired to the property authority about selling, but with little success. He told Chunlee he doubted whether he could change the property status but added that if Chunlee could do it, then he would be interested in selling. Zhin said he had some ideas of his own and could use the funds from the sale to help facilitate his own plans.

Chunlee could see the cards starting to fall into place and invited his friend, the police director (PD) Zhou, to lunch at the city’s top restaurant by the Yangtze River. From the restaurant window, they could see the apartment where the PD now lived, due to his earlier assistance in helping Chunlee develop the apartment block. At lunch, Zhou informed Chunlee that he knew the director of the property authority and could talk to him about granting permission if Chunlee was able to offer him something substantial. Zhou warned Chunlee that the property authority director was a difficult man to deal with. Chunlee suggested that perhaps the property authority director would like one of the apartments that would result from the construction, and asked whether Zhou could sound him out to see whether such a gift would be suitable, or whether Chunlee could privately arrange an equivalent gift. All three were members of the Communist Party, and although Chunlee and the property authority director knew each other, their relationship was distant, and Chunlee would need Zhou to be their go-between. Zhou said to leave it with him and that he would talk to the property authority director if and when an appropriate occasion arose.

Chunlee was careful to ensure he would also take care of his relationship with Zhou, and spoke about what he may be able to help him out with in the future. Zhou said that they would need to be careful, because many on his staff knew of their relationship, and he was concerned that some of them might no longer be trusted to keep sensitive arrangements secret. He did not want any information regarding favours to get out into the public sector. They both knew the new Chinese president had spoken out about eliminating corruption. As a result, many in the police force were still unsure how their guanxi networks would be affected. They both agreed that prudent secrecy and special care were needed to facilitate this outcome. The old friends departed on good terms and said they would contact each other in the next few months, after Zhou had spoken to the property authority director.

Later that evening, Chunlee had arranged to have dinner with his old school friend, Huang Kwe, with whom he had formally worked at the CSOREC. Recently, Huang had left the CSOREC, and was now following a similar path to Chunlee—he was trying to develop his own travel agency. His new business had come up against some strong competition. Chunlee had commenced his business when the market economy was just developing, and so had enjoyed a distinct first-mover advantage. Huang had started much later, and his business was facing tougher competition and developing slowly. During the evening, he asked Chunlee if he knew of any customers who might be able to use his travel service. Chunlee said he would keep him in mind.

Driving home, Chunlee thought perhaps he could talk to Zhou about sending some of his senior police department staff on a trip using Huang’s new tourist service. When he later discussed this idea with Zhou, the PD said he was concerned that many of his employees knew about the deal he had done the last time, and that this time it would be wise to reward all of them to stop any complaining from those who had not received any benefit the previous time. Zhou said if they were to do any favours for members of his team, then they would have to do the same for all 40 of his Wulidian sector employees.

The next day, Chunlee telephoned Huang and asked if he had any specials he would be able to offer to a number of customers who were searching for a holiday. Huang said the best opportunity he could see was a six-day, five-star trip to Bali, Indonesia, that would cost him ¥5,000[[2]](#footnote-2) per person; to cover all his costs and make a marginal profit he could probably offer a discounted ticket at ¥6,000 per traveller (US$1,000). A friend at China Mid-Western Airlines could get them flown there and back for ¥2,000, the five days in shared rooms in a five-star resort in Jimbaran Bay would cost ¥2,000, and airport transfers and breakfast would cost ¥1,000, resulting in a profit of ¥1,000 per person.

Chunlee calculated the cost and realized if he could get permission to build the new 12-storey lakeside apartment block, he could profit by ¥9–10 million (US$1.5 million to US$1.6 million). A six-day, five-star trip to Bali for the PD and his 40 employees would cost only ¥240,000 (US$40,000). Upon reflection, that would be a small amount to pay if he could confirm the deal. It would be a tricky manoeuvre that would require stealth and sensitivity, and he would need to think about it and discuss it with Zhou.

Three days later, Chunlee phoned Zhou on the PD’s direct line and asked to meet him in the next couple of days. When they met, he told Zhou that a friend was offering a six-day, five-star trip to Bali in six months’ time, and he asked the PD if he would be interested in taking his 40 officers on such a trip. The PD smiled but said they would need to be careful and probably camouflage the trip as part of their employment duties.

Sixteen weeks later, the PD called a meeting of all 40 officers under his command, men and women, and told them that there was a mandatory trip for all of them to a special international police conference in Bali, Indonesia. The trip would be confidential police department business and the details needed to remain private. All of their expenses for the five days of the conference and training would be covered by the Wulidian Police Department, but they would need to pay ¥800 each to cover the costs for 1.5 days of free time in Bali. The time in Bali would be counted as official working time, and officers would be required to take their official uniforms to be worn during the conference.

In the meantime, Zhou had arranged to have the documentation completed to alter the lakeside property’s status from lease to Chinese freehold so that Huang could sell the property to Chunlee. This change in status would also enable Chunlee’s 12-storey construction to proceed, and the property management director would sign the release in return for one of the apartments that would be given to him upon completion of the building.

The confidential “police training and conference” in Bali went ahead, and six months later, the clearing of the construction site began. The Bali trip included only one day of security training, and the police spent the remaining five days enjoying the beach and the five-star facilities of the Keraton Sands Hotel. Upon their return, all the officers quietly agreed they had enjoyed the vacation and, because they were all on the trip together, nobody could complain or make known to anyone that they had in fact enjoyed this holiday at the expense of the police department (although it had actually been funded by Chunlee). Chunlee’s travel agent friend, Huang, was happy that he had been able to gain this business for his new company, and realized that, as a result of this favour, he needed to pay Chunlee back sometime in the future.

However, one of the 40 police officers who had gone on the trip was evidently unhappy that he had been forced to pay ¥800 to go on the trip. He had also managed to take some photos while in Bali and, feeling a little frustrated, had aired his complaint on WeChat under the anonymous name of tigertiger3. WeChat was similar to Facebook, but it was a Chinese government website.[[3]](#footnote-3) Once the authorities had seen the tigertiger3 message regarding the 40 police officers enjoying a trip to Bali at the expense of the police budget, they deleted it immediately.

Yet tigertiger3, the complaining officer, had also registered his disapproval on the 12345 Mayor’s Hotline in Chongqing, which had been set up by the government and promoted in each city by President Xi and his Disciplinary Committee. This action was more serious, as the hotline was a more transparent site; those receiving the complaint (at the Mayor’s office) were required to take action and record their action on the corresponding website.

It did not take long for the Chinese authorities to identify tigertiger3, and the offending officer was taken away for questioning, but his complaint had also been recorded on the 12345 Mayor’s Hotline. If this exposure had occurred before President Xi’s presidency, as a disciplinary measure, tigertiger3 would likely have lost his job (perhaps permanently), spent time in jail, and been sent on a re-education program. Because he had guanxiwith some of the senior officers in his section, he probably would have been returned to his job later, at a beginner’s rank, on the condition that if he did anything similar again he would lose his job permanently.

However, President Xi was making a big issue of removing corruption in China, and senior officials had already been jailed and lost their jobs after being found out and exposed in the new world of transparency and anti-corruption measures. The 12345 Mayor’s Hotline was tigertiger3’s insurance policy, offering him some degree of protection from harm or punishment.

A senior officer from the hotline had requested a meeting with tigertiger3, and had recorded the conversation, as well as all of tigertiger3’s photos and documentation. Chunlee and Zhou were then summoned to meet separately with the Mayor’s senior officer two weeks later. How should Chunlee and Zhou prepare for this meeting? What could they do to resolve this serious problem?

1. In general, guanxi refers to the establishment of a connection between two individuals to enable a bilateral flow of personal favours or social transactions. Irene Y. M. Yeung and Rosalie Tung, “Achieving Business Success in Confucian Societies: The Importance of Guanxi(Connections),” *Organizational Dynamics* 25, no. 2 (1996): 54–65. [↑](#footnote-ref-1)
2. ¥ = CNY = Chinese yuan renminbi; all currency amounts are shown in ¥ unless otherwise specified. US$1 = ¥6.1145 on November 29, 2016. [↑](#footnote-ref-2)
3. Facebook was banned in China because it was free, and nobody, not even the Communist Party, could control it. The Chinese government promoted the message that WeChat was much better than Facebook, and ensured it was controlled by the Chinese government and the Communist Party. [↑](#footnote-ref-3)