

Research on Criminal Risks in Private Enterprises: A Case Study of City J, Zhejiang, China

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Abstract

An empirical study of enterprise-related crimes in City J, Zhejiang reveals a fluctuating trend—initial increase followed by decline—over the past three years. Root causes include deficiencies in legal compliance awareness, internal governance, and standardized management among private enterprises. Proposed countermeasures emphasize enhancing entrepreneurial guidance, strengthening employee education and management, and standardizing internal control systems to cultivate robust corporate norms and culture.

Keywords: Enterprise-Related Crimes, Corporate Risk, Compliance Strategies.

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INTRODUCTION

As a leading economic and private enterprise hub in China, Zhejiang's private sector contributed over 60% of provincial GDP, 70% of tax revenue, 80% of foreign trade exports and new employment, and 90% of market entities in 2023 [¹]. However, amid persistent global economic downturns and tightening domestic conditions, private enterprises often resort to non-compliant practices to sustain operations, exacerbating overlapping economic and criminal risks. This study analyzes criminal risk data from City J's private enterprises to illuminate broader sectoral vulnerabilities.

1. Data Analysis of Criminal Risks in Private Enterprises in City J

From 2022 to 2024, courts in City J handled 932 criminal cases involving private enterprises, with annual

totals of 204 (2022), 388 (2023), and 340 (2024), showing a "peak-middle with slight decline" trend. This mirrored the overall criminal case trajectory in the jurisdiction (8,156 in 2022; 10,479 in 2023; 10,094 in 2024) [²].

Regional Distribution

The 932 cases were distributed across counties/cities as follows: YW (246), YK (147), WC (133), DY (128), WY (92), JD (69), LX (51), PJ (43), PA (23).

Crime incidence correlated positively but imperfectly with local GDP rankings (see Tables 1-2). While YW consistently ranked first, shifts occurred in other regions (e.g., WC surpassed DY in 2024).

Table 1: Number of Enterprise-Related Criminal Cases by District in the Past Three Years

Years	YW	YK	WC	DY	WY	JD	LX	PJ	PA	Total
2022	68	28	21	26	16	22	8	12	3	204
2023	97	68	50	55	34	24	26	19	15	388
2024	81	51	62	47	42	23	17	12	5	340
Total	246	147	133	128	92	69	51	43	23	932

¹The data is sourced from the news on cctv.com on September 12, 2024.

²Data source: Information from the case acceptance system of the courts in City J

Table 2: GDP by District (Unit: Billion CNY)

Years	YW	DY	WC	YK	LX	WY	JD	PJ	PA
2022	1835.5	761.4	746	725.3	465.1	320.5	300.3	274.8	133.6
2023	2055.6	805.9	804.8	756	496.8	340.2	320.9	291.5	135.8
2024	2503.5	875.1	871.6	835.5	554.8	394.2	415.5	320.2	154.8

The 932 criminal cases involving enterprises can be classified into three distinct categories, each reflecting different dimensions of criminal risk faced by private enterprises:

1. Internal Employee Offenses against Enterprises (378 cases, 40.56%)

Annual Distribution:

85 cases (2022), 162 cases (2023), 131 cases (2024). Dominant offenses: Embezzlement, misappropriation of funds, and bribery by non-state personnel collectively accounted for 89.68% (339 cases) of this category.

2. Enterprise/Entrepreneur-Perpetrated Offenses (352 cases, 37.77%)

Annual Distribution:

91 cases (2022), 120 cases (2023), 141 cases (2024). Core violations: Tax fraud, illegal fundraising, labor rights violations, intellectual property infringement, and workplace safety offenses constituted 69.89% (246 cases) of such cases.

3. External Offenses against Enterprises (202 cases, 21.67%)

Annual Distribution:

28 cases (2022), 106 cases (2023), 68 cases (2024). Predominant crimes: Intellectual property violations, fraud, theft, and extortion represented 89.6% (181 cases) of external offenses.

2. Analysis of the Causes of Criminal Risks Faced by Private Enterprises

I. Systemic Compliance Failures

The crimes committed by enterprises or their owners often stem from systemic compliance failures. The analysis reveals that criminal issues related to enterprises caused by problems such as tax evasion, illegal fundraising, and violations of production safety are relatively serious. In addition, there are also some problems in terms of financing violations. For example, improper financing is likely to be identified as illegal fundraising or loan fraud. It is worth noting that during our investigation, we found that some enterprises that had been operating in compliance previously would also break the law due to wage defaults, mismanagement of assets, or obstruction of justice during occasional periods of financial distress. This indicates that their compliance behaviors are based on the situation rather than principles. These research findings reveal systemic loopholes, and differentiated regulatory intervention measures need to be taken according to the size, industry, and development stage of enterprises.

II. Internal Governance Deficiencies in Private Enterprises

The analysis of 932 criminal cases from 2022 to 2024 shows that employee misconduct is the most prevalent risk category. The illegal acts involved include embezzlement of public funds, misappropriation of funds, commercial bribery, etc., which expose four systemic loopholes that commonly occur in enterprises:

- 1. Concentration of Duties without Checks:** Many SMEs assign multiple roles to single employees to reduce costs—for instance, sales staff handling both client acquisition and payment collection, or managers overseeing procurement, sales, and finance simultaneously. Such practices, coupled with inadequate separation of asset handling and financial oversight, create opportunities for fraud, including falsified transactions, unrecorded income, and embezzlement.
- 2. Lax Financial Oversight:** Proper financial governance requires segregation of duties between cash management, accounting, and financial analysis. Yet, many SMEs either combine these roles or allow ad hoc role-sharing, enabling employees to manipulate records or divert funds through unrecorded income or fabricated expenses.
- 3. Personal Account Misuse:** To evade taxes or legal liabilities, some enterprises bypass corporate accounts, channeling transactions through employees' personal bank or e-payment accounts. This not only violates regulations but also facilitates employee misappropriation of company funds.
- 4. Ethical Culture Erosion and Overlooked Risks in Peripheral Roles:** Bribery by employees often persists due to a pervasive "subculture" that normalizes kickbacks. Employees rationalize such gains as harmless profit-sharing, while employers tacitly tolerate them by adjusting salary expectations. This cultural apathy fosters systemic corruption. In addition, Low-wage, low-visibility roles (e.g., drivers, security guards) are frequently neglected in hiring and supervision. Their access to assets, combined with weak oversight, leads to theft or collusion with external parties.

III. Weaknesses in External Risk Management

External offenses against private enterprises, though fewer, reveal critical vulnerabilities:

- 1. Inadequate IP Protection:** Private enterprises are both perpetrators and victims of IP violations. Limited resources and short-term profit focus often lead to weak safeguards—no dedicated IP personnel, no brand-protection strategies, and disregard for third-party IP rights.

2. **Poor Fraud and Theft Prevention:** Enterprises frequently underestimate market risks, failing to vet partners or secure assets. Lax physical security (e.g., unguarded storage, weak access controls) invites theft, while naivety toward "too-good-to-be-true" offers enables fraud.
3. **Mishandled Labor Disputes:** Crimes by former employees (e.g., arson, sabotage) often trace back to unresolved grievances—unpaid wages, abusive management, or unfair dismissals. These retaliatory acts highlight the cost of poor labor relations.

3. Research on Countermeasures for Preventing and Managing Criminal Risks in Private Enterprises

I. Enhancing Entrepreneurial Guidance: Lessons from Proactive Offenses

1. Legal Education for Entrepreneurs

Just as individuals are bound by the law throughout their lives, enterprises operate within the legal framework from their establishment to dissolution. Entrepreneurs must recognize that a market economy is an economy governed by law. Therefore, entrepreneurs should receive legal education on company law when starting a business. At the same time, they are required to develop the habit of signing written contracts when conducting commercial activities. Moreover, it is necessary to cultivate entrepreneurs' knowledge of financial and labor laws.

2. Ownership Structure Planning

Improperly designed equity arrangements (which are quite common in family-owned enterprises) will sow the seeds of future conflicts. Dysfunctional dynamics among shareholders, such as unclear profit distribution and overlapping responsibilities, often trigger internal litigations or lead to the collapse of the enterprises.

Therefore, enterprises should design a clear equity structure, clarifying the equity shares and decision-making hierarchies. At the same time, governance safeguards should be implemented to separate management and supervision. Reasonable structural planning in advance can reduce internal strife and maintain the long-term development of the enterprises.

II. Paying Attention to Employee Education and Management: Insights from Analyzing Employee Crime Causes

³ For example, comments from the current US government indicate that, in addition to ordinary corporate crimes, the use of Deferred Prosecution Agreements (DPAs) and Non-Prosecution Agreements (NPAs) will be expanded and applied to other situations, while ensuring that the outcomes are fair to all parties involved. Since many enterprises have expanded and are operating in multiple jurisdictions, it is of utmost importance to ensure their compliance with the law and

Crimes by private enterprise employees are the largest category in enterprise - related crimes, accounting for 40.56%. This urgently requires private enterprises to enhance employee education and management.

1. Strengthen Legal Publicity among Employees

Generally, private enterprise employees have a relatively low educational level and lack legal awareness. Unspoken rules like "everyone takes, so I can too" are common. Some employees take risks, thinking short - term use of enterprise funds can go unnoticed. Some long - term employees start with small thefts and can't stop. Relevant departments should send "legal publicity teams" to enterprises to boost employees' legal awareness. Private enterprises can also form legal publicity teams to educate employees and guide them to be law - abiding.

2. Standardize Employee Management and Assessment

Family - style operation in private enterprises leads to arbitrariness in job and salary arrangements, dampening employees' sense of belonging. Some employees commit crimes due to unfairness, like favoritism, salary deductions. This requires private enterprises to improve management, abandon the idea that "management is solely the owner's business", and build a sense of community between the enterprise and employees. A good enterprise atmosphere is crucial for retaining employees, which reflects broader social fairness [³].

III. Standardizing Enterprise Internal Control Systems: Lessons from self - management Issues

An enterprise, as an independent entity, shapes employees' behavior and will, making them extensions of itself. Thus, per the organizational criminal liability theory, the basis for corporate crime liability should be rooted in the enterprise itself, determined by its rules, culture, and purpose [⁴]. A sound internal control system thwarts criminal - prone employees, while a flawed one may tempt good employees. Given private - enterprise - internal - employee crime types, strengthening relevant controls is crucial.

1. Standardize Financial Staff Allocation

Accounting and cashier roles. Private firms should stop cost - cutting by having one person do both jobs. Long - term cooperation between them can lower

create a sense of harmony in our increasingly globalized business world today. See Gustavo A. Jimenez, Corporate Criminal Liability: Toward a Compliance-Oriented Approach, 26 Ind. J. Global Legal Stud. 378 (2019).

⁴ Yuan Fang, "The Basis and Specific Development of the Theory of Criminal Liability for Enterprise Crimes", Henan Social Sciences, No. 7, 2024, p. 78.

vigilance, and trust - based audits must be replaced. This separation plugs financial loopholes.

2. Standardize Procurement and Sales Duties

Private enterprises must clarify procurement and sales staff duties. Procurement staff may take kickbacks, and sales staff might intercept payments. Set a proper salary structure and end the practice of basing pay on kickbacks.

3. Strengthen Warehouse and Guard Supervision

Warehouse keepers, though in low - paid jobs, handle key assets. Guards control goods' entry and exit, and both can embezzle. Some delivery drivers forge notes to steal goods. A sound system should strengthen oversight of these often - overlooked positions.

IV. Creating a Sound Law - based Business Environment: Insights from Enterprise Operational Difficulties

Some crimes involving private enterprises link closely to their operating environment, like bribery, bid - rigging, and illegal fundraising. To address this, we must balance government - market relations, curbing power's overreach in business. This shifts private firms from a "power - reliant" to a "market - driven" model.

1. Build a Market - Led Resource Allocation System

Streamline government functions, let markets allocate resources, and minimize rent - seeking. Improve procurement and bidding procedures. Transparency and fairness will cut power abuse, offering private firms a level playing field.

2. Forge an Equal Financing Landscape

Financing woes hamper private enterprise growth and drive illegal fundraising. The government should nudge financial institutions to treat state - owned and private firms equally in lending. Leverage policies like SME credit guarantees to ease private - sector financing.

4. CONCLUSION

Through the empirical research in City J and the in-depth analysis of the criminal risks related to enterprises, it has been found that during the operation process, enterprises need to consider various risks from multiple aspects. Also, business owners need to operate their enterprises in strict accordance with legal provisions to achieve the sound operation of the enterprises.